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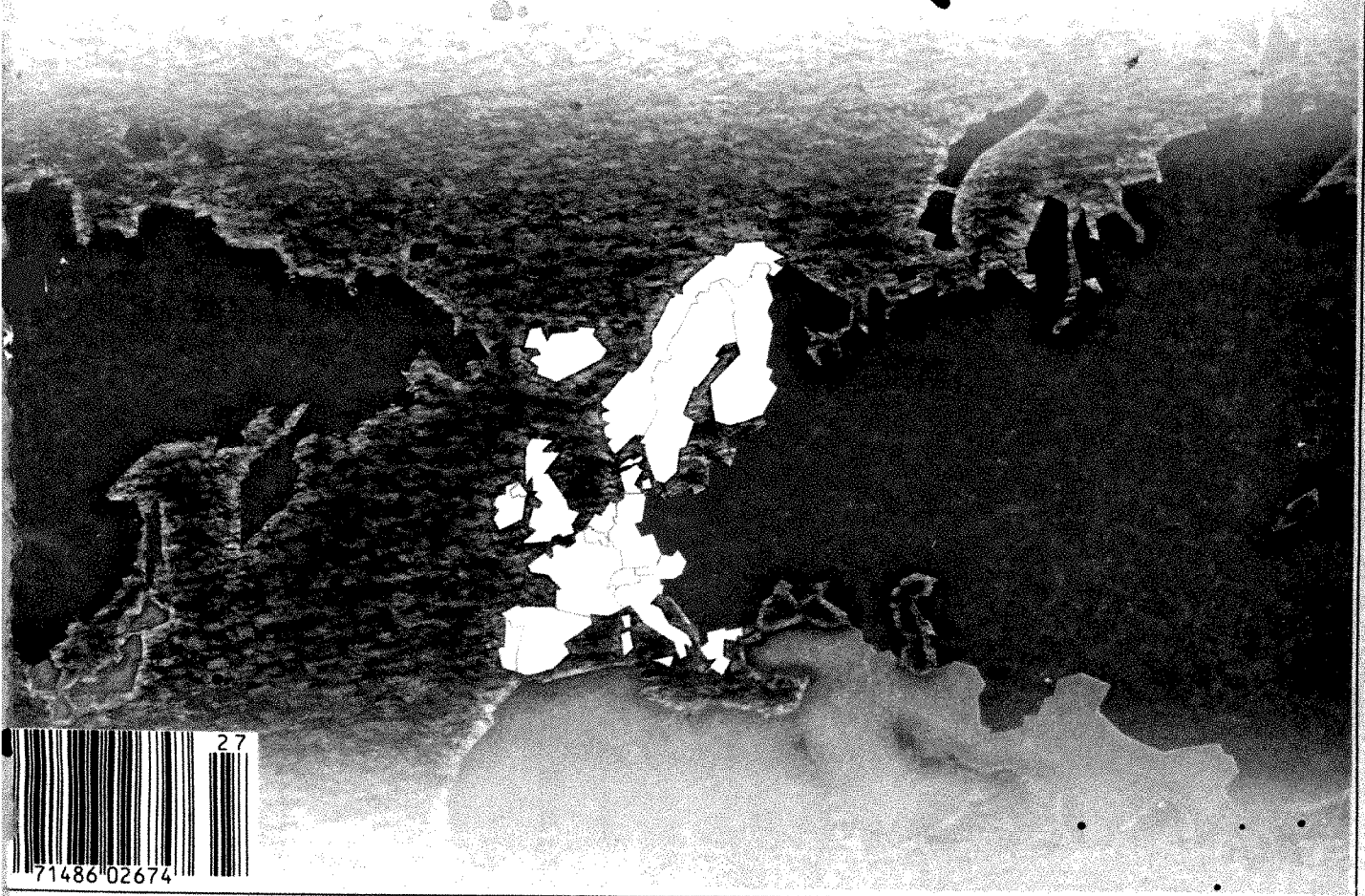
5-11 July 1986

SPEEDING ON WALL STREET
AIDS
PRODDING SOUTH AFRICA
BBC R.I.P.?

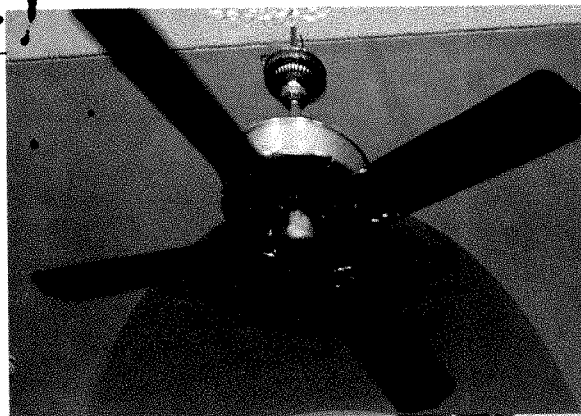
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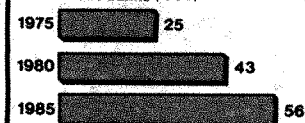
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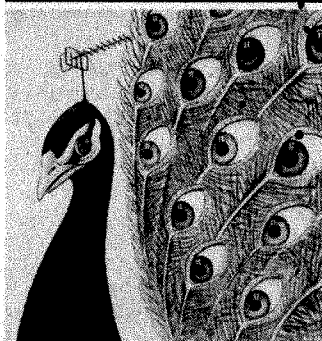
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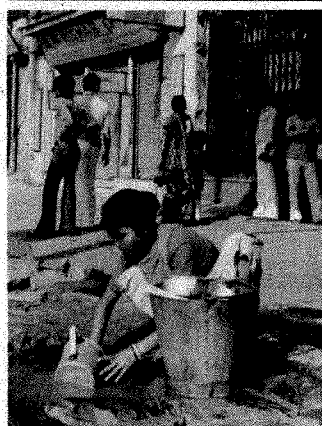
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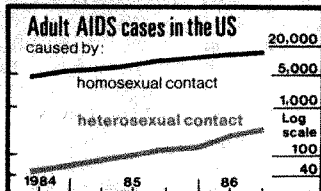


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LETTERS

South Africa

SIR—Many now question whether the West does want in South Africa "a relatively bloodless transition to a democracy that will stay a democracy, and will preserve human rights and a free market economy" (June 14th).

There is little practical indication of western support for the development of the required framework, and in particular Western commitment to the promotion of democracy, for such peaceful change in southern Africa. There are at least three areas in which such a framework could have a major and interwoven utility—Angola, Namibia and South Africa.

In Angola's civil war, in the bloody aftermath of the failure to develop democratic institutions and promote pluralism, it is Mr Jonas Savimbi who talks of national reconciliation, saying that he is prepared to negotiate a new constitutional dispensation. Does the West support the development of such a dispensation, does it seek to impose sanctions against Angola to promote peaceful reconciliation?

Namibia, tied closely to South Africa both economically and culturally, while not yet independent, is now actually governed by a black majority. It has a black-majority cabinet, a black-majority national assembly, a black-majority national constitutional council, sweeping human rights reforms, a functioning bill of rights, and substantial depolarisation around the concept of national reconciliation and national unity. Yet, despite the powerful potential of this Namibian model to influence peaceful transition in the whole of the southern African region, it is rejected outright by the West.

Against this background, enter the Eminent Persons Group suggesting a very similar, although essentially western, framework for peaceful transition in South Africa. I believe that the Eminent Persons Group could have succeeded but only if, at the same time, the EPG-sponsoring governments had demonstrated wholehearted and unconditional commitment to pluralism, to democracy, national reconciliation and ordered transition. It is only through a basic understanding of South African perceptions of the regional picture that the

fundamental importance of this test can be appreciated.

The West has thus far failed that test of commitment. Only if the West demonstrates an understanding, even acceptance, of the utility of the pluralist model being developed in Namibia will that test be passed. Only if Namibia can be brought to peaceful independence on the basis of this pluralist, democratic and pro-western model will South Africa likewise be encouraged to follow suit.

*House of Commons,
London* NICHOLAS R. WINTERTON

SIR—The blacks in South Africa have the economy in the palm of their hands. You say in your leader "Third-world toughs" (June 21st), "Last year, mining firms accounted for close to 80% of the country's total exports. They paid R3.4 billion in taxes".

All the dirty work in the gold mines is done by black Africans, many of them from neighbouring countries. Let them all strike and refuse to let any brother blacks take their jobs and South Africa's government is bankrupt. It is built on gold. With no exports and no money to pay the army and the police, it could no longer govern.

*Hindhead,
Surrey* IRIS CAWLEY

SIR—I am sorry to see that your leader implies that, in 1948, a group of right-wing Afrikaners hijacked the liberal English-speaking government in South Africa. You should know that every South African government since the Act of Union in 1910 has been led by Afrikaans-speaking South Africans who have headed political parties almost entirely composed of Afrikaans-speaking South Africans.

When Malan defeated Smuts in 1948, it was part of the continuing struggle within Afrikanerdom, which is what South African politics have been about since the days of the Great Trek. Except in Natal, the political interest and influence of English-speaking South Africans has always been—and remains—peripheral to the conflicts between their Afrikaans-speaking compatriots.

London KINGSLEY M. OLIVER

Whales

SIR—All whales are so depleted, and their recovery rates so slow, even under total protection, that it will be for a future generation twice removed from ours to decide whether or not to exploit them again for food. In this situation, contrary to your expressed view (June 7th), a complete ban on commercial whaling makes sense. The argument that whales eat fish, and so must be culled to save the herring fisheries, is as ill-founded as the claims of Icelandic and Korean whalers that they need to continue whaling in order to advance science; most scientists associated with the IWC have said that such "scientific whaling" will contribute nothing to resolving current management questions. And humpback whales have been getting entangled in cod traps more often not because they have been increasing in numbers but because their food further offshore had been depleted by over-fishing of capelin for fishmeal production. Now that Canada has got its fisheries management into better order the humpback "problem" is lessening.

I am sorry to say that your two correspondents from Oslo (Letters, June 20th) are also ill-informed. Detailing all their mistakes would make this letter excessively long; some examples must suffice. The proportion of its whale meat production which Norway exports to Japan has been rising for a decade, and in 1984 and 1985 exceeded 50%. Mr A. F. Hoel seems to think Norwegian minke whale catches are taken within 200-mile national limits, where he mistakenly thinks states have "property rights". On the contrary, minke whales are migratory species subject to a special jurisdiction wherever they may be, and in any case much of the Norwegian catch is taken outside anybody's 200-mile zone. Mr Peter Bilton thinks that minke whales reach maturity in two years; they do not, they mature at about eight years of age. Further, the "40- to 100-foot boats" (actually up to 120-foot, fast and exceedingly well equipped) constitute the fleet that has in 30 years reduced the minke whale populations throughout the North Atlantic to less than 10-20% of their original number, and is continuing to reduce them, though recent Norwegian regulations have drastically reduced the allowable catch.

*Rye,
East Sussex* SIDNEY J. HOLT

British pop music

SIR—It was a bit narrow-minded to pick out Dire Straits, Elvis Costello and Test Department ("Why Britain is top of the pops", June 21st) when there is an incredible new range of talent around. Dire Straits are technically extremely good musicians, but as imaginative as the rest of the mainstream morass of pop. Elvis Costello, on the other hand,



has been producing the most imaginative music around for the past decade and Test Department are doing without talent what the Berlin group Einstürzende Neubauten ("Collapsing New Buildings") has been doing brilliantly for five years. There is a real renaissance of British independent music, but you missed it.

Finally, Tony James's Sige Sige Sputnik hype did pay off. The band's first single reached the top ten and a large amount of money has been made on T-shirts etc, and by selling advertising space to be recorded between the tracks of their forthcoming LP.

Oxford J. E. FAITH

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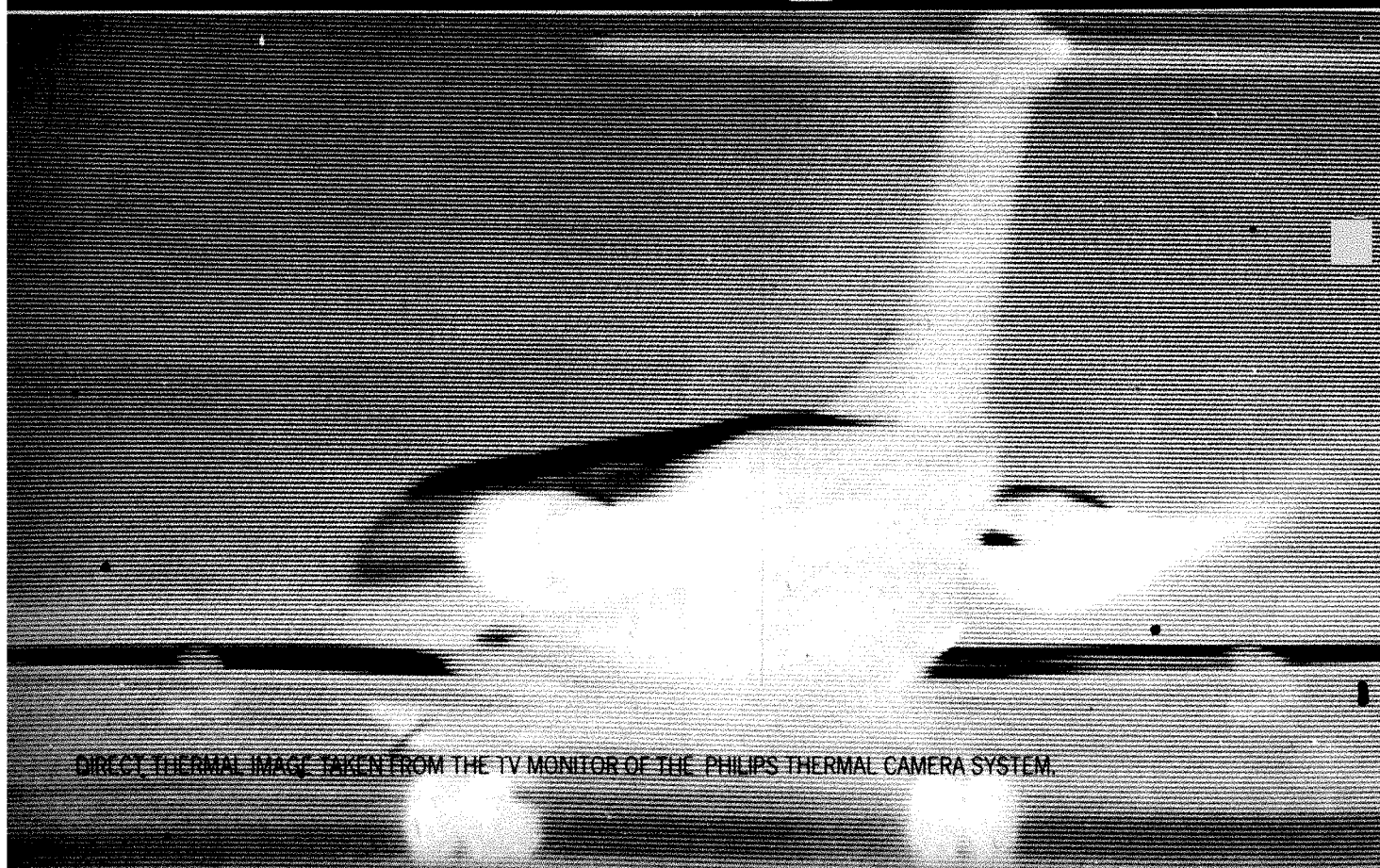
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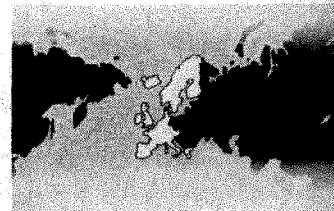
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June 11, 1986

Europe without America



Europa, said Mr Mikhail Gorbachev this week, giving the Greek myth an unusual twist, has been seized by an American bull and taken across the Atlantic (actually, the poor girl succumbed to the boss of the Olympian litburo). The average American, the editor of *US News and World Report* was complaining last week, spends more on the defence of Europe than the average West European does. That is only a small exaggeration. In April, in the European uproar after the bombing of Libya, an indignant majority of the American Senate was ready to vote for a proposal to start pulling American troops out of ungrateful Europe.

How nice for angry people on both sides of the Atlantic—Europeans who do not want to be dependent on Rambos, Americans who hate being nagged by wimps—if Western Europe would only arrange to look after its own defence. And how unlikely it is to happen. Look at the cost of defending Europe-without-America, and see why Mr Gorbachev may fancy himself as the next Zeus.

Doubled, or trebled?

The figures start with the fact that Western Europe would have to find replacements for the American army's just-under-six divisions in West Germany (nearly a third of the combined German, British and French armies there) and for the American air force's 700 fighting aircraft in Europe (nearly a quarter of what the rest of NATO provides). The Europeans would also have to expand their navies to do the Europe-protecting work now allocated to the American Second Fleet in the Atlantic and the Sixth Fleet in the Mediterranean—guarding the sea-lanes, getting reinforcements to Norway or Greece in a crisis, and so on. And the Americans provide a number of things for the defence of Europe which at the moment Europeans do not make: longer-range anti-aircraft missiles, reconnaissance satellites, some sorts of radars and computers. The Europeans would have to start from scratch with all these.

The bill then lengthens. The existing NATO forces in Europe are meant to be big enough to discourage the Russians from attacking, but not to fight them off if they did come. That would need extra troops. The reinforcements which would move into Germany in the first week or so of a war—the vital time—are almost all American (assuming the French were in from the start).

After that, if there was an "after that", the European contribution would increase. But Europe could never plug the American gap. The Europeans have only a given number of men young and fit enough to fight. The Americans have as many again: and they would not be available. The same applies to the unavailable American factories that would be needed to produce the weapons for a long war.

The Europeans would also have to equip themselves with a substitute for American nuclear protection. That does not mean building a nuclear armoury as big as America's, which has other business in addition to holding an umbrella over Europe. But it almost certainly requires a fleet of missile-carrying submarines bigger than the present French and British forces (and more pan-European, because Germans and Italians and Beneluxians would have to feel protected by it too). That would need West German money and therefore—many Europeans will note as wryly as Mr Gorbachev does—some degree of German control.

To do all this, young European men would have to be on military service for longer than they are now (and Britain would have to reintroduce conscription). As for money, this paper's guess is that the Europeans would be lucky to replace America for less than double their present defence budgets, and it is likelier to be treble: and even then some kinds of high-tech equipment, and those long-war reinforcements, would be unreplaceable. How many Europeans honestly believe that their fellow-Europeans in the late 1980s and 1990s will be prepared to cut the health, education and jobless-supporting parts of their budgets—or raise taxes—enough to do that?

To that unpitiful question, only three answers are even attempted, and none of them stands up:

- "It wouldn't be necessary to replace all the departing Americans." In fact, most people in Western Europe, including many left-of-centre politicians, reckon that NATO's present forces in Europe, Americans included, are too small. The Warsaw pact has a 2½-1 lead in tanks, 3-1 in anti-tank weapons, 3-1 in artillery, nearly 2-1 in aircraft and 6-1 in anti-aircraft missiles. That is why feebler NATO has to keep a finger on the nuclear trigger. The British Labour party's defence spokesman said on June 30th that his party would put all the money saved by a cancellation of the Trident missile submarine

into a strengthening of Britain's non-nuclear forces.

Okay: but that's assuming the Americans are still here.

● "But at least Europe doesn't need a nuclear replacement." Alas, it does. Against a nuclear-armed adversary, the best non-nuclear armies that Europe could muster would be the modern equivalent of cavalry trotting into machine-guns.

● Most desperately of all, "But we don't have to worry about Russia, do we?" It is highly unlikely that Mr Gorbachev reckons to have a European war as part of his next five-year plan (though his staff officers have naturally made their preparations: lucky Britain is in the Polish army's occupation zone). But, unless the world has suddenly started working to different rules from those of the past few thousand years, a power that knows it has a military advantage over its neighbour is sooner or later going to use that advantage in one way or another: including, if necessary, in a military way. Any West European inclined to think that being beatable by Russia does not matter should ask himself two questions. Would Russia think that being beatable by the West didn't matter? And is there reason to think

that Russia is innately more innocent than the West?

Of course, to say that Europe cannot defend itself without America is not to say that it should not be doing more to try. The Europeans could help to repair NATO's weakness in tanks, guns and anti-aircraft missiles. They could find some of the money for that by buying their arms rationally and not nationally. A few European countries could be lending a hand outside Europe. The navies of Britain, Spain and Italy, for instance, might be doing some joint planning for non-NATO work with the American Sixth Fleet in the Mediterranean, as the British and French navies do with the Seventh Fleet in the Indian Ocean. These things make military sense. They also make political sense, if they check the build-up of American impatience with Europe.

Europeans tend to think they have a monopoly of the to-hell-with-it feeling. They don't: it is at least as strong in America. Back in April, when that indignant majority of the American Senate was thinking of a pull-out from Europe, the sensible minority prevented the issue coming to a vote. Europe needs the help of sensible Americans, because it needs America.

Peering past Peacock

Some useful proposals for British broadcasting, which will get few thanks

The Peacock committee, set up last year to find a Thatcherite solution for the financing of the costly BBC, has defied sceptics by producing a good report which will annoy almost everybody—free-market right, anti-commercial left and highbrow centre. It has done a useful job because it has understood that the future of broadcasting will be decided not by committees like itself, nor by governments, but by the galloping progress of technology.

In the next 15-20 years, television and radio will become freer than books and newspapers have ever been. Anybody will be able to tune through a dish on his roof into videorecordable programmes from far countries. Many more producers will be able to throw programmes into the air, financing them by the advertisements attached, or eventually by credit cards stuck into television sets to unscramble their messages, or by other forms of subscription broadcasting. This will make some pay-TV programmes more expensive for the viewer; more money will be diverted to the performing arts because the BBC-ITV duopoly will not be able to hold down the fee for relaying Covent Garden or Cup Final. But competition will do a Wapping against other costs by cutting many of the trade-union and other restrictive practices within the duopoly, while the extra space on offer on many programmes will push down the price that can be charged for advertisements.

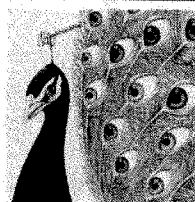
The Thatcher government had hoped that Peacock would say that the BBC should be required to take advertising, and thus avoid frequent increases in its licence fee. As advertisement revenue for old-fashioned

network television will be dwindling like horse-traffic, Peacock has instead said that the licence fee should stay, though frozen in real terms in order to cash-limit the BBC. The committee has rightly been more concerned to look at what will happen when the old-technology broadcasting of the BBC-ITV duopoly gives way to the new technology of satellite and cable.

Fragment, segment, compete

Broadcasting will fragment. The search will be separate, target audiences. Today, Britain's two commercial television channels, ITV and Channel Four, reach between them about 90% of the British population every week. Soon, 90% of the population will not conceivably be watching only two-to-four channels. The electronic revolution will spawn televisual equivalents of the *Financial Times* and the *Sun*—and, later, of the *Beano* for children of every age, and of *Exchange & Mart*. The main policy for government should be to get out of the way of such diversification. The British establishment is not good at getting out of the way. The Independent Broadcasting Authority (IBA) still labours earnestly, every eight years, to find worthy recipients for the 15 franchises for commercial television, and then subjects them to all kinds of constraints: for instance, it limits to four the number of quiz shows with big prizes which can be shown at peak times.

These rituals look increasingly foolish. The franchise for TV-AM, the breakfast television channel, was awarded after the usual assurances to five famous broadcasters who looked earnest as well as appallingly expensive;



within a few months, they had been pushed aside by a boardroom coup and Roland Rat. Peacock has therefore sensibly suggested that television franchises should be auctioned. Alas, some government ministers have reacted with gasps of horror to that. And the cabinet, frightened by the prospects of the loony left taking to the airwaves, has ignominiously shelved its own liberating proposals for lots of new and cheap community-radio stations.

The IBA's insistence on rigorous conditions for independent broadcasting cannot last. Already, any Briton who has invested in a dish aerial can watch foreign satellite channels whose programmes and advertising are far more lightly regulated than are the IBA's charges. In the long run, the only hope of regulating programming or advertising will lie in international agreements: and they are not likely to fuss about limiting the proportion of peak-hour quiz programmes. Regulation of television broadcasting is something that a deregulating government ought to want less of. Why,

are broadcasters will demand, should they be subject to rules about political balance? It will soon be harder to regulate what people tune to in the privacy of their homes than it is to control the content of imported

books or foreign videocassettes.

Where, amid this alien porn, will public-service broadcasting be? The subscription broadcasting that the Peacock committee envisages for the 1990s (and which has already started in America and France) is one way in which viewers can pay to watch Donizetti rather than Dallas. Donizetti made accessible through subscription broadcasting should actually be able to pay for its own staging much more easily than it could at present at Covent Garden if the Royal Opera House were to lose its Arts Council grant and sponsorship; but it is clear that a lot of experimental and highbrow and educational programmes would still need to be supported. If something of the Reithian ideal of popular culture is to endure, some public-service broadcasting will continue to need public subsidy—as opera does today.

It may not, however, need the BBC. Once channels multiply, it may make more sense to subsidise individual programmes and their makers, rather than to carry the cost of the entire corporation. If some of those subsidised programmes can later be sold to the world at a large profit, as some of Britain's subsidised theatre has controversially been (see page 50), so much the better for British arts.

Stumbling into sanctions

May make Mrs Thatcher look a bit better, but isn't likely to solve South Africa

All western governments would like to "do something about apartheid", but they cannot agree what that something should be. The resulting muddle gives much comfort to the government in Pretoria. The person best placed to bring some coherence to the West's opposition to apartheid is Margaret Thatcher—trusted friend of President Reagan, longest-serving leader in the EEC, linchpin (if she chooses) of the Commonwealth. Yet, among western countries, Britain's recent policy towards South Africa is the most muddled of all.

The mission to Pretoria of Britain's foreign secretary, Sir Geoffrey Howe, to "get negotiations going" was clearly intended as a delaying tactic at last week's fractured EEC summit. Mrs Thatcher's demand for the freeing of Mr Nelson Mandela and the legalising of the African National Congress is lost as she boasts of her tactical victories over her pro-sanctions opponents. She is attempting a diplomatic minuet in hobnail boots.

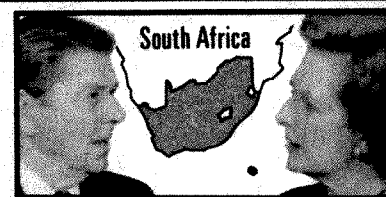
Mrs Thatcher shares with the leaders of America, Japan and West Germany the view that economic sanctions will not end apartheid. Their argument is hard to refute. Sanctions will probably increase the stubbornness of President Botha and make life tougher for poorer people throughout southern Africa. Black leaders who call for sanctions mostly do so in the false belief—encouraged by anti-apartheid lobbyists sitting safely in the West—that they will lead quickly to the downfall of Afrikanerdom. In practice, economic sanctions are like saturation bombing. They make the

bomber and the bombed feel that something dramatic has occurred, but they rarely alter the balance of advantage on the ground.

South Africa has been experiencing severe financial sanctions, crippling both its currency and its inward investment, for the past year. Its markets have already discounted new embargoes. It stands ready with retaliatory measures against neighbouring black states, measures that will strengthen Mr Botha's position at home. Meanwhile, the familiar combination—liberalisation (this week's ending of the pass laws) and repression (the state of emergency)—continues as before.

The missed alternative

Mrs Thatcher rightly believes that the outside world has little influence on the pace and pressure of events in South Africa. She also believes, again rightly, that public opinion in the West feels nothing like as strongly on the subject as her opponents maintain. She therefore had a line of argument and action that would have made both tactical and intellectual sense, starting from the premise that those who wish to shape the affairs of other countries without using military force are doomed to big talk but small action. She could have chosen a few specific measures—some positive, some punitive—of her own, and then seized the initiative by proposing them at every opportunity, and implementing some of them before others did. Examples include more black scholarships, employment protocols for foreign busi-



nesses, aid to the townships, a ban on any military contacts, maybe withdrawing landing rights for South African airliners. These would never have matched the grandiose dreams of the saturators, but they would have been hard to brand as appeasement.

For the time being, Mrs Thatcher's chance to develop a persuasive argument of her own has been lost, both within the Commonwealth and in much of the EEC. President Reagan has lost a similar argument with the pro-sanctions lobby in the House of Representatives. Mrs Thatcher's dispatch of Sir Geoffrey Howe to South Africa ill-conceals this defeat behind a lurch into the

politics of personal exhortation. Within a month, both the EEC and the Commonwealth will want to hear the fate of his mission.

Unless President Botha has a brainstorm and releases Mr Nelson Mandela, Britain can then scarcely refuse to join in some new sanctions. These will presumably embrace a selective trade embargo against South African coal and farm produce, both supported by EEC protectionist interests. They will receive a raspberry in Pretoria and create profits for middlemen, but do nothing to change the perception of Britain as bumbler. Palmerston would not have approved.

Sex transmits AIDS

Condoms offer the best hope of containing the epidemic

Public complacency over the most frightening disease of this century worried doctors at the second world conference on AIDS in Paris. The prognoses are terrifying, the statistics remorseless. More than ever, the virus looks invincible (see page 74). It could now be spreading among heterosexuals as fast as it did among homosexuals four years ago (in Haiti, one of the places where it first took hold, more than 70% of today's victims are heterosexuals who do not fall into any of the old "high risk" categories). A cure cannot stop it in the next few years; changes in sexual behaviour can.

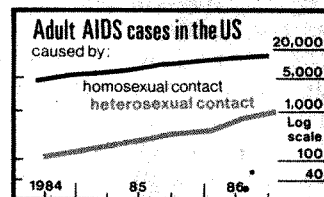
Because AIDS takes so long to develop, of the more than 300,000 people whose immune systems will collapse in 1991, three-quarters are already infected. For every case of the disease, more than 90 people are infected and infectious but show no symptoms. Many—perhaps even most—of them will eventually go down with the disease. Up to 7m Africans, 1½m Americans and 200,000 Europeans could already be infected.

This means that the chances of a heterosexual, not very promiscuous person catching the disease are rising quickly. Just meeting infected people does not matter. Casual contact cannot pass on the virus. Those who work with, play at school with, eat with, bathe with, share razors with, are bitten by, accidentally cut them-

selves while caring for, or kiss AIDS victims do not catch the virus. The disease is spread through blood, sperm and vaginal secretions. In a single year, the risk of infection could be as high as 40% for a person engaging in regular sex with a partner who has the virus. If either or both partners have herpes or syphilitic sores, or indulge in anal sex, the chance is greater.

AIDS is less contagious than gonorrhea; but because it is incurable and because carriers are infectious forever, it might not remain confined, as gonorrhea does, to the promiscuous. About half the prostitutes at the cheaper end of the market in Nairobi have gonorrhea; more than two-thirds have the AIDS virus. Among San Francisco homosexuals, the threat of AIDS has drastically reduced the number of partners each has. But more of his fewer partners are infected.

The fact of sexual transmission has yet to sink in. Since abstinence is unrealistic and cure a distant hope, the best answer is the condom. Barrier methods of contraception, condoms especially, stop virus-infected cells passing from one partner to another during sex. Governments, voluntary agencies, doctors and teachers have to get the message through plainly and without embarrassment to everybody, heterosexual as well as bisexual and homosexual. Use condoms.



Farewell to a symbol

LA PRENSA

East Europe moves a step deeper into Central America

It is rare for a newspaper to do more than peer at events. Nicaragua's *La Prensa* has shaped them. The assassination of its editor, Pedro Joaquin Chamorro, by right-wing goons in 1978 set off the insurrection that overthrew the dictator Somoza. The closure of the newspaper on June 26th by the left-wing Sandinist regime probably marks the end of the country's fleeting

glimpse of freedom after Somoza.

If Nicaragua's already-restricted radio stations are now shut down, its people will have no news but official news. President Ortega has given warning that the American Congress's approval of \$100m in help to the anti-Sandinist contras creates a "new situation" which requires a tightening of the "excessive flexibility" in

Nicaragua's state of emergency. The government is expected to ban political meetings and remove the law against detention without trial. The interior minister has hinted that the property of Nicaraguans outside the country will be taken over. The screw of Leninism seems to have been given a sharp new twist.

Until now, the Sandinists had been careful to preserve an appearance of pluralism. True, an important opposition group was not given the guarantees it needed to take part in the 1984 election. But the votes collected by some other non-Sandinist contenders lent that election a ration of respectability, even though the parliament it elected has since been ignored by President Ortega and the nine-man Sandinist directorate which runs Nicaragua. The private sector still accounts for half the economy, trimmed by confiscations and constrained by price controls though it is. The number of detained people and the forced resettlement in May of Nicaragua's Miskito Indians—for the second time—have been kept more or less out of sight.

Some of those attracted by the early promise of the sandinists say it is the United States which has made them turn ugly. That reverses events. When President Carter was sending aid to Nicaragua in 1979-80, the Sandinists—almost alone in the third world—applauded the Russian invasion of Afghanistan and began bringing Cuban arms and advisers into their country. When Congress stayed President Reagan's contra-

helping hand last year, Mr Ortega flew to Russia to ask for military help. This year, after Congress had again turned down contra aid in March, Nicaragua went hunting contras inside Honduras. Congress changed its mind after the Sandinists had refused to sign a peace treaty drawn up by other Latin Americans.

The way Congress has now voted says something about America's view of itself in the world. The United States learnt in Vietnam that it is better to help your third-world friends to fight their own battles than to do the fighting yourself. It also learnt an extreme wariness about involvement, even indirect, in other people's jungles. The opinion polls show that most Americans have long preferred to give the Sandinists the benefit of the doubt. That is why Congress lagged behind President Reagan in willingness to help the contras.

The long unpopularity of the Reagan administration's support for the contras, and the procrastinating patience of the Contadora peace effort, gave the Sandinists every chance to show the little extra flexibility needed to maintain people's sympathy. And yet, bit by bit, they have lost it. It may be that they were from the start committed Leninists who disguised their intentions. Maybe they fell for the East European temptation a piece at a time. Maybe they include people of both sorts. Could the young hero Ortega have imagined in 1978 that it would be he, not the dictator Somoza, who would close the doors of *La Prensa*?

Coming to market

Britain's new share issuers should learn from America but not imitate it

New share issues in Britain often favour the investors who buy them rather than the companies that float them. This happened when Thames Television went public with a £32.5m fixed-price offer that attracted applications for 27 times as many shares as were on offer. It happened before when Amersham International was privatised in 1982 through a £71m fixed-price offer, and was oversubscribed 22 times. The Thames Television issue was nonetheless seen as a "success": it started trading at a premium of 19%. If this sort of result is a success, investment-seeking businessmen would hate to see a failure. The sellers of Thames got far less money for their shares than the market judged them worth.

Such old habits need changing if companies are to raise capital efficiently in London's equity markets, especially as deregulation increases their opportunities to raise it elsewhere. But companies should not be too quick to exchange their comfortable British clothes for smart new American suits. The British system has advantages that it would be a shame to lose.

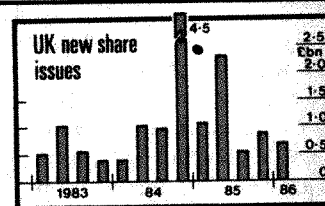
In Britain, it is said, shares are bought while in America they are sold. Investors are incited to buy in Britain by a low offer price, which leaves ample room for a rise. In America, investment houses are encour-

aged to sell through whopping commissions.

This means that British companies pay fees of only 2.5% or so but raise capital on poorer terms, while their American counterparts pay fees easily twice as high but get a price for their shares that—"hot issues" like Morgan Stanley's flotation apart—is usually closer to market demand. Most of Britain's fees go to underwriters to insure against failure, most of America's to salesmen to guarantee success. Companies probably do better in America than in Britain. Investment banks do a lot better; investors slightly worse.

Finding the right price

The art is to pitch the price of new issues as high as possible while still attracting a broad spread of shareholders and leaving just enough unfulfilled demand to get secondary trading off to a modestly buoyant start. The preferred American way to bring off this trick is a kind of massive private placement, with integrated and well capitalised investment banks agreeing with each other and with pension funds and insurance companies on who will buy what. Price is the last thing fixed. Investment banks "build a book" before signing up Wall Street takers for specific chunks at a specific price. Dealing in the shares begins almost immediately. Issues



need not be offered directly to the public; retail-minded brokers get on to individuals and sell to them.

In Britain, the old demarcation lines between merchant bank advisers, stockbroker distributors, jobber market-makers and institutional sub-underwriters have often meant that the firms in charge of advising on price have least direct knowledge of what the market will bear. Longer procedures make this worse. In fixed-price offers for sale, prices may have to be guessed at and set ten days before dealing in the shares begins. Tender offers are a better way of balancing supply and demand, but they turn off individual investors.

The British all-purpose securities houses created by deregulation are edging toward fine-tuning prices before an issue is launched. They would edge faster but for one requirement in the Companies Act (that offers for sale be advertised publicly for at least three days before shares are sold) and one Stock Exchange rule (which restricts private placements to £3m). The Stock Exchange limit should and probably will be raised; the

Companies Act requirement should, but probably will not, be shortened.

Even if these desirable changes are made, Britain will still lack retail houses capable of creating demand and shifting shares fast and wide at a good price. Britain has no Merrill Lynches, with several thousand salesmen. Nor, since Britain has proportionately less than a third as many individual shareholders as America, are its firms racing to incur the heavy fixed overheads such retail distribution requires.

Until Britain's brave new securities all-rounders prove they can improve a company's offer price by marketing the issue actively and effectively, companies would be daft to exchange London's cheap fees and direct individual access for America's high selling commissions and limited access. So Britain's slightly quaint procedures are likely to survive for a while longer, but companies should exploit increased competition between financial firms to reduce the gap between market and offer prices.

Eureka!

A good beginning will come to a sticky end unless Europe creates a common market

Eureka is beginning to look unexpectedly vigorous. After their meeting in London this week, ministers from the 19 participating countries have now blessed 72 pan-European industrial R&D projects, costing well over \$2 billion. Each is supposed to help bridge the high-tech gap between European firms and their American and Japanese competitors. Getting this far within 15 months of the project's birth is impressive by any standards. More encouraging still is the way Europe's politicians have remained on the straight and narrow.

In Brussels, but not of it

Governments have resisted the temptation to bribe companies to do research projects dreamt up by civil servants. Eureka has left Europe's businessmen free to devise their own R&D projects, and submit them for Eureka approval. This gives Eureka a chance to spawn better products rather than prettier laboratories. Nor have the ministers given way to the temptation to set up another suffocating Eurobureaucracy. Although its tiny secretariat (seven professionals, six support staff) will live in Brussels, Eureka has neatly bypassed the European Commission. The focus of work will stay where it belongs—on company workbenches rather than on the desks of technocrats.

Europe's competitors will of course cry foul, claiming that Eureka funnels taxpayers' money into firms that ought to compete on their own strengths. They would do better to stay silent. In Japan and in America, where star wars provides further billions in indirect subsidies, government support for high-tech industrial R&D is growing. So is the tendency for companies to collaborate on pre-competitive research. Europe, in contrast,

labours under special, albeit self-inflicted, handicaps. By protecting national champions, individual European governments have kept alive more firms than Europe's fragmented markets can sustain. Many of the Eureka projects are overdue responses to bigger ventures outside Europe (see page 75).

A better criticism of Eureka is that it may be too small to make much difference. The 72 projects have two features in common. They are designed to lead quickly to the development of marketable products—whether a new strain of sunflower or a next-generation telephone network. And they involve the collaboration of companies from at least two countries. If European firms are to compete internationally, far more than \$2 billion of collaborative work of this kind is needed.

The way to get more projects is not for governments to dig deeper into their pockets. Eureka's subsidies are likely to cover about half the cost of research projects. This is generous enough—probably over-generous for big, cash-rich firms like Siemens and GEC. When public subsidies grow, so does the temptation for firms to develop unmarketable products. European governments would do better to take note of how one Eureka venture—an attempt by Italy's Olivetti and Britain's Acorn to develop trans-European educational micro-computers—has already faltered because of the absence of trans-European standards.

In encouraging new links between European producers of high-tech goods, Eureka has got off to a good start, but only a start. It will not succeed until Europeans batter down the barriers that prevent high-tech products from reaching a Europe-wide market. Sometime this century, please.



A CLOSE LOOK AT HOW THE AIRLINES LOOK AFTER THEIR AIRCRAFT.

COMMERCIAL FLIGHT SAFETY, JULY 12.

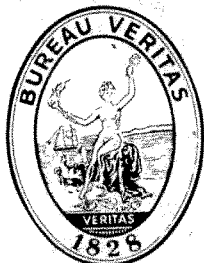
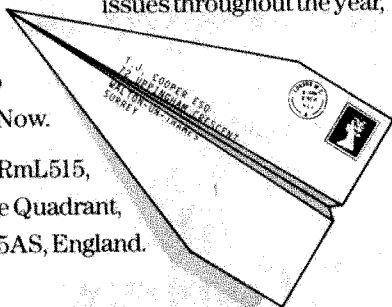
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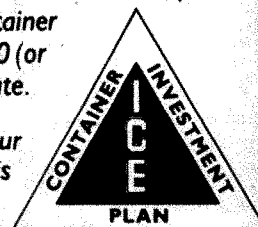
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SHARP IMPROVEMENT IN PROFITS

Preliminary Results for the Year ended 31 March, 1986

Highlights

- Profit before tax: £28.7 million — up 74%
- Profit Attributable to Charter: up £9.2 million to £19.8 million
- Earnings: 18.8p per share — up 88%
- Net worth: 385 million (366p per share) — up 11%

Summary of Results

- Profits showed a sharp improvement in the year to 31 March, 1986. Revenue increased and interest charges were much lower. Profit before tax, up 74 per cent, rose £12.2 million to £28.7 million. After taxation at a lower effective rate, profit after tax more than doubled to £19.8 million from last year's £9 million and earnings per share were 18.8p compared with 10p.

An increased dividend of 7.75p per share is recommended to give a total dividend of 11.5p.

The better profits of Charter reflect continued progress in reshaping the Group, reducing the level of borrowing and seeking higher returns on capital. Progress has been made in all three areas during the past year and although more needs to be done (and is in hand) in civil engineering, the advances made by the operating companies in the manufacturing sector, where the bulk of operating capital is now invested, are encouraging.

The Company

Charter Consolidated is the parent company of a British group engaged in manufacturing, construction mining, and finance and investment.

Charter's business has been extensively reshaped in recent years and much of the capital employed is now in operating companies.

The manufacturing companies produce mining equipment, railway track components, fire protection and other building materials. The construction industry companies are engaged in civil engineering, construction and insulation services. The mining companies produce coal and tungsten.

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Copies of the preliminary statement can be obtained from the Company's registered office at 40 Holborn Viaduct, London EC1P 1AJ.

The Annual Report will be posted to shareholders on or about 10th July 1986.

INTERNATIONAL

Buthelezi's choice

FROM A CORRESPONDENT IN SOUTH AFRICA

President Botha's get-tough strategy has two parts. The first, vigorously pursued since Mr Botha put South Africa into a state of emergency in mid-June, is to throw the government's black enemies in prison in the hope of restoring calm and quashing the troublemakers. The second, once that has been accomplished, is to find some black friends who are in a position to negotiate a settlement that will satisfy most blacks but still, somehow, leave whites in control.

The question that haunts the first part of the Botha plan is whether the attempt to crush the opposition by imprisoning it will restore the peace. The question that haunts the second is whether Mr Botha can find a black interlocutor of any substance. It is becoming increasingly clear that Mr Botha hopes Chief Mangosuthu Buthelezi will be his man. Will he?

The Zulu leader stands at the crossroads of his career. He must soon decide whether to join Mr Botha's proposed "national statutory council", an advisory body that might—say its advocates—eventually draw blacks into the making of central government decisions. The alternative is for him to throw in his lot with what the outlawed African National Congress calls the "people's struggle". The independent third line that Mr Buthelezi professes to be following between these two alternatives is becoming less and less plausible.

He claims to lead nearly all the country's 6m or so Zulus, who account for nearly a quarter of South Africa's blacks and about 18% of its entire population. But surveys suggest that his support is falling. In 1977 West Germany's Bergstraesser Institute reckoned he was South Africa's most popular black leader. When asked then to identify a "genuine leader", twice as many blacks named him as named the ANC's Mr Nelson Mandela.

However, recent research by a South African pollster, Mr Mark Orkin, suggests that Mr Buthelezi now barely has a

majority of Zulus from the Zulu-speaking heartland of Natal behind him. Even in Durban, Natal's biggest city, he may no longer command the support of most blacks. Outside Natal, Mr Orkin found, the chief's following among Zulus has dipped sharply. It seems to be negligible among non-Zulu blacks.

The government is using the emergency to forbid practically all political activity by the mainstream black nationalists, who look to the ANC and its just-legal counterpart, the United Democratic Front, for inspiration; but Mr Buthelezi's



Does he look like a second fiddle?

Inkatha movement has been allowed a free rein. He was permitted to hold a "prayer rally" in Soweto on June 29th, his first big meeting there in nearly two years. But the Zulu chief had to be protected by dozens of heavily armed policemen. To avoid an embarrassingly thin crowd, the Inkatha organisers had to bring in busloads of supporters from Natal. Of Soweto's 1m-plus inhabitants, a good quarter are Zulu. The rally drew only about 15,000 people.

Mr Buthelezi seems to realise that a moment of truth is approaching. At the

prayer meeting, where his speech was almost pure politics, he hinted that he might accept a place on the proposed national council. If he did, he said, it would mark the start of the "final victory for the black struggle for liberation"—so long as Mr Botha first let Mr Mandela out of prison. Mr Buthelezi said he would also have to win a "massive mandate" from blacks before he joined; and the council would have to be more than a mere talking-shop.

Even the barest of these conditions would be hard for the ruling National party to meet, and that makes Mr Buthelezi's choice hard. He could join the council but then find himself, yet again, hitting his head against a brick-wall refusal to give blacks real power. Or he could hold out, get nothing from Mr Botha, but see his power-base even in Natal shrink even further. There is another possibility:

he could try to make his way back into the mainstream of the black opposition.

But too much blood may already have been shed for a reconciliation between Mr Buthelezi's supporters and the black radicals. In Durban especially, the competition between them has led to a lot of killing. Besides, many people now believe the autocratic Mr Buthelezi would never allow himself to play second fiddle to another black South African, even Mr Mandela. Primacy for Mr Mandela would probably be the radicals' minimum price for a reconciliation.

The Commonwealth's "eminent persons group", however, drew some interesting assurances from both Mr Buthelezi and Mr Mandela. The group said the ANC leader's attitude to other black groups was conciliatory. Their eminences

reported that "he did not conceal his differences with Chief Buthelezi... Nevertheless, he was confident that, if he were to be released from prison, the unity of all blacks, including Chief Buthelezi, could be achieved." More strikingly, the Commonwealth visitors say that Mr Buthelezi himself told them "in the plainest terms that he would work for Mandela".

At the moment, of course, there is almost no prominent pro-ANC leader with whom Mr Buthelezi could work: they are all in jail or in exile. The detainees'

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parents' support committee, a Johannesburg-based group, has worked out that probably more than 4,000 people were arrested in the first two weeks of the current emergency. That compares with 8,000 detained under emergency rules during the whole of the July-to-March emergency that began last year.

This time the government seems to have made a concerted attempt to break up the UDF; its leaders, scattered all over the country, have accounted for over a quarter of known arrests. And the trade unions have been particularly hard hit, with at least 222 leaders and more than 720 rank-and-file members detained.

If Mr Botha is to carry out the first part of his two-part strategy, crushing the resistance and restoring peace, the death-

rate will have to start falling. This year it has been running at 130 a month, compared with 70 a month last year. Even according to government figures, about 100 people have been killed since June 12th. Mr Botha will also have to ensure that the trade unions do not grind industry or mining to a halt with a wave of protest strikes. They say they will do just that if, by July 10th, their leaders are not let out.

It will be equally hard for Mr Botha to make concessions big enough to lure Mr Buthelezi on to his council but small enough not to inflame the Afrikaner right. On August 12th Mr Botha is to tell a congress of his National party exactly how he intends to set about squaring that circle. The meeting may bring Mr Botha—and the rest of South Africa—little joy.

Nicaragua

Now prove yourselves

There are said to have been all-night parties in the jungle camps of Nicaragua's contra guerrillas when the news came that President Reagan's proposal to renew American military aid to them had been approved by the House of Representatives in Washington. The contras will now have to show that they deserve the support Mr Reagan has given them. The best way they can do so is to create something important they have never yet had: a strategy.

The rebels plan to spend the \$70m of military aid on a fairly modest shopping-list that includes anti-aircraft missiles and automatic rifles. They face a growing Sandinist arsenal. The Americans claim that a dozen Soviet Mi-8 helicopters were unloaded in mid-May from a freighter at Nicaragua's Pacific port of Corinto. That brought the total in the Sandinists' possession to about 25. They also have a

dozen Mi-24 helicopter gunships.

For several months, the contras have been carrying out hit-and-run operations in Nicaragua. They have not, however, taken on the Nicaraguan army in a serious engagement or attempted to take and hold any important part of the country. The contras respond to jibes about their performance by saying that, without anti-aircraft missiles, they are defenceless against the Sandinists' helicopters. Some people suspect the real reason is that they are unwilling to take risks.

Still, they begin the new stage of the war in better political shape than before. Most of them have now subscribed to, or agreed to co-operate with, a federation called Nicaraguan Opposition Unity (UNO). This comprises the Nicaraguan Democratic Force (FDN), the biggest guerrilla army, based in the north; the Indian group KISAN in the north-east; and UNO-South, a small guerrilla force led by Mr Fernando (El Negro) Chamorro. UNO-South includes several commanders from the army of Mr Eden Pastora, who recently gave up the fight because he had run out of American sympathy, and therefore out of guns and bullets. How many fighting men this adds up to is unclear. The federation boasts that the FDN has more than 15,000 fighters, KISAN 2,000 and UNO-South 3,000; but these figures are probably a bit high.

Mr Adolfo Calero, the leader of the FDN, says that the contras' immediate aim is to instal an "assembly of free people" inside Nicaragua. This would be made up of 32 representatives from six opposition parties, three trade unions and several professional associations. Its official purpose would be to invite the Sandinists to "democratise the country". Its real pur-

pose would probably be to serve as an alternative government.

The Sandinists seem to take the contras seriously. Their first reaction to the vote in Washington was to narrow even further the country's remaining range of liberties. President Daniel Ortega said on June 27th that "we are not going to be so naive as to accept a civic opposition, because that doesn't exist any more". Mr Bayardo Arce, the Sandinists' chief ideologist, said that "revolutionary laws will be applied rigorously" against "internal enemies". The government closed the only opposition newspaper, *La Prensa*, on June 26th. Two days later, the spokesman for the Catholic church in Nicaragua, Monsignor Bismark Carballo, a Nicaraguan citizen, was told he would not be allowed to come home from a trip to France.

In fighting the Sandinists the rebels will be helped by dissatisfaction about shortages of food and medicine in Nicaragua. Mr Freddy Morales, director of supply of the internal trade ministry, said recently that "more critical days are coming for the supply of bananas, plantains and even tortillas". The destruction of a warehouse containing seed potatoes is liable to affect the next potato harvest. Meat has not been on sale in some shops for at least a month. But none of this will get the contras closer to Managua unless they use their new American money to fight more convincingly.

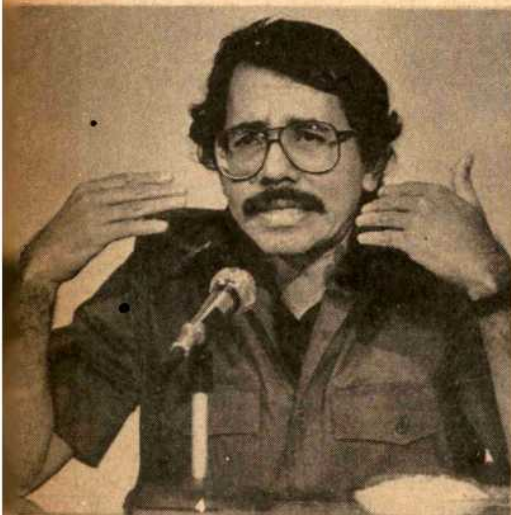
New Zealand

What, us worry?

Mr David Lange is an awkward cuss, to use a New Zealand expression. He also has charm. The American secretary of state, Mr George Shultz, acknowledged both these characteristics on June 27 after the failure of 18 months of effort to persuade New Zealand's prime minister to allow American nuclear-powered and nuclear-armed ships to use New Zealand's ports. Mr Shultz said in Manila that the United States and New Zealand were no longer formally military allies, but that they parted as friends.

Being a friendly non-ally is a subtle category in international relations. It is made subtler by Mr Lange's apparent decision not to repudiate the ANZUS pact, which was signed by Australia, New Zealand and the United States in 1951. The pact refers to the three countries' "sense of unity" if an aggressor should attack any of them, and calls on them "to meet the common danger" in accordance with their constitutions. Mr Lange, a lawyer by training, has noted that these are rather imprecise commitments.

New Zealand's navy (four frigates plus



Ortega forswears naivety



Friendly non-allies Lange and Shultz

a few patrol boats) will be upset that it will no longer be invited to go on the manoeuvres with the Australian and American navies which have been a practical part of the ANZUS alliance. But Mr Lange seems to have reasoned that if a Russian armada one day loomed up off Auckland the Kiwis would hardly be likely to have to fight it alone:

Does the ANZUS treaty determine through what eyes the United States sees a defence strategy throughout the Pacific? Or is there a collective interest by people broadly of western orientation to see that there is no physical molesting of smaller nations by huge countries?

This rather carefree idea that the Ameri-

cans will always be there to help you in a pinch will not please the United States. But Mr Shultz's main worry about the Lange doctrine is more specific: that New Zealand's nuclear allergy could be catching. If it spread, it could deny America the use of other ports both in the Pacific and elsewhere.

The Philippines claimed recently that nuclear weapons could be brought into the American bases at Subic Bay and Clark Field only with the permission of the Philippine government. The Americans said firmly there was no such agreement, implying that they had no intention of signing one. Japan and Norway, among others, find nuclear-ship visits a sensitive

subject, but have gone along with America's policy of refusing to confirm or deny whether a vessel is nuclear-armed. America's fear is that Mr Lange's example may make it harder for them and countries like them to continue to go along.

For all Mr Shultz's pleasantness of manner towards Mr Lange, the United States will continue to try to bring New Zealand to heel. An American official said that the Reagan administration would be unlikely to defend New Zealand's economic interests if they were challenged by protectionist moves in Congress. The presumed American hope is that Mr Lange will lose an election before too long and be replaced by somebody who doesn't mind the odd nuclear ship dropping in. But the Americans will have to be patient.

Even if Mr Lange's Labour government is defeated at the next general election, a new government would not necessarily scrap its predecessor's non-nuclear policy. This policy will be incorporated in legislation due to be introduced in New Zealand's parliament in September. Misguided they may be, but a lot of New Zealanders still seem to like feeling that their bit of the planet is nuclear-free.

China

Same old opium

For a long time nothing blighted China's international standing more than its persecution of religious believers. Buddhist lama temples in Tibet and Muslim mosques in Xinjiang were destroyed, and churches were converted into factories

Untrustworthy

This month may bring one of those Soviet vetoes in the United Nations Security Council that are less frequent than they used to be. The council is to debate the proposal to end 39 years of American trusteeship in Micronesia—the Trust Territory of the Pacific Islands, to give it its formal name. Referendums have been held in the four regions of this wide scattering of small islands, and the Marshalls, Palau and the Federated States of Micronesia have chosen a status described as “autonomous in free association with the United States”; the Northern Marianas preferred the kind of “associated commonwealth” status that Puerto Rico has long had.

Once there were 11 UN trust territories, but by 1975 the other ten had either become independent or been merged, with their inhabitants' consent, into

neighbouring states. A similar dwindling affected the Trusteeship Council that had been created to oversee their administration. The UN charter said that this council should consist of the administering states and an equal number of others, and that the Security Council's five permanent members—America, Britain, China, France and Russia—were to be included in one capacity or the other. Since 1975, with America left as the only administering power, this formula has proved impracticable. The Trusteeship Council's only remaining members have been the “big five”. In practice only four have sat, as China has refused to attend any meetings.

In the last week of May those four discussed the Micronesia proposals and approved them by a vote of three to one. But the one was Russia, which denounced the provisions that would allow America to retain rights to bases in the islands, and indicated that it would vote

“no” again when the Security Council was asked for its endorsement. Paradoxically, that endorsement is needed only because the Americans, from the start, wanted access to bases in Micronesia and therefore had it classed, uniquely, as a “strategic” trust territory.

The Russians have accused America of “neo-colonial” manoeuvring. They are doubtless hoping that this line of argument will bring them enough third-world allies to prevent the Micronesia proposals from getting the support of a majority in the 15-member Security Council. But if the council's third-world members prefer to be guided by the Pacific's independent island states, which seem to favour the proposals, Russia will have to use its veto to block an endorsement. The effect of such a blocking move would be to maintain the UN's supervisory role in Micronesia. The Trusteeship Council would then not lose its last reason for continued existence.

and stores. Since 1979, China has restored some of the buildings, freed priests and made promises of religious freedom. The "World Conference on Religion and Peace", just concluded in Peking, was presumably meant to confirm the change of heart. It didn't.

Some 100 foreign delegates turned up, among them an archbishop and two bishops from Rome, an Israeli rabbi and a metropolitan from Kiev, together with 500 Chinese Buddhists, Christians, Muslims and Taoists. The delegates were assured that China's believers wanted the world to relax about them. Peking's tamest Tibetan, the Panchen Lama—the Dalai Lama lives in exile—urged his listeners to increase world happiness.

The show of religious tolerance China is presenting to outsiders does not, however, seem to fit in with the party line, which remains unbendingly anti-religious. As the conference was opening, the magazine *Outlook*, sometimes described as the house-organ of Dengism, assured its readers that religion is still the opium of the people. Religion, the magazine said, is the result of "belief in the existence of superhuman forces". Although some of the moral standards upheld by religions "still conform to the building of socialist spiritual civilisation", the article went on to argue that "the anaesthetic role of religion is innate and negative".

The foreign delegates to the conference are unlikely to have seen *Outlook*. Neither would most of them have read Party Document 19, published in 1982, which sets party members a "magnificent goal: an era when all the various religious expressions of the actual world finally disappear". Although the Chinese constitution guarantees freedom of religion, the party controls religious affairs. These affairs, says Document 19, must be conducted only under or through "patriotic associations" to which each religious group must belong. Religious infiltration, "especially by the Vatican and Protestant missions", is to be resisted.

The three Vatican delegates could not have been ignorant of how implacable this resistance sometimes becomes. In 1983 Bishop Joseph Fan Xueyan and his vicar-general, Father Huo Binzhang, were jailed on a charge of "colluding with anti-Chinese foreign forces to jeopardise the security of the motherland". The bishop had previously been jailed between 1958 and 1979 for his religious beliefs.

China is making a grand experiment of trying to wrench a Marxist economy into the twentieth century. Nobody should think that, public relations apart, this yet means much for freedom of conscience in the world's most populous country.

Less money for more people

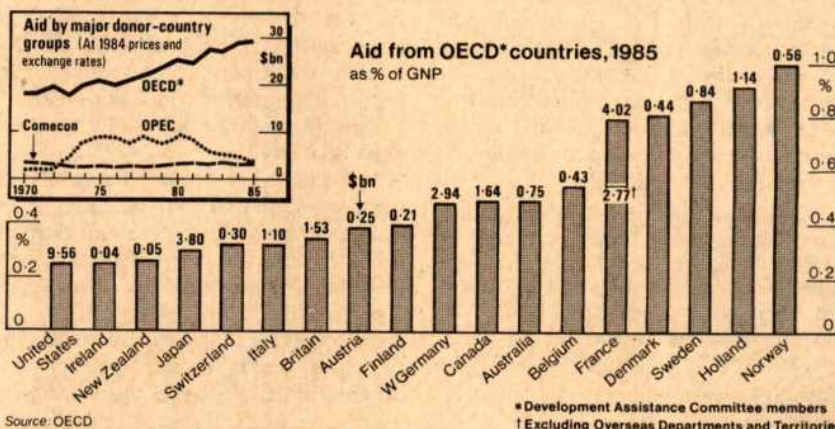
Some things don't change. The Development Assistance Committee of the OECD has reported that its 18 member-countries last year gave developing countries \$29.6 billion in official development assistance, which it defines as grants or subsidised loans with a grant element of more than 25%. That was 3% more than the figure for 1984; and even allowing for shifts in price levels and exchange rates, it was 1.8% more. But as a percentage of the donors' GNP, aid fell slightly last year, to 0.35%. In 1971, when the United Nations set an aid target of 0.7% of rich countries' GNP, aid amounted to an almost identical 0.34%.

There are other things worth noting in the report. One is the decline in the share of aid that goes to multilateral agencies, such as the World Bank and the African Development Bank. It fell from 34% in 1980 to 30% in 1985.

The third world gets aid from other sources, of course. Last year it got \$6 billion from Comecon and OPEC. But Comecon's contribution (three-quarters

of which goes to Comecon members Cuba, Mongolia and Vietnam) remains stuck at 0.21% of GNP, while OPEC's has collapsed. A brighter note is struck by private voluntary agencies: in 1985, the year of Live Aid, they raised \$3.1 billion, 20% more than the year before.

The really bad news comes from the total flow of resources to developing countries: official aid accounts for only 44%. Non-concessional government loans contributed \$12.8 billion last year, only \$100m more than the year before. Government export credits collapsed from \$18 billion in 1981 to only \$3 billion last year. And the net flow of private money has dwindled: it was \$74 billion in 1981 but only \$29 billion in 1985. Direct investment has halved, and commercial bank loans have quartered. The result—rarely noticed when official aid budgets are set—is that the total net flow of money to developing countries fell from \$139 billion in 1981 to \$80 billion last year. Their population grew between those years by more than 10%.



Hostages in Lebanon

And the others?

An American congressman, Mr Robert Dornan, has come back from Syria with a hint of hope from President Hafez Assad that there will be some "good news very soon" about the western hostages who have been held captive for months or years in Lebanon. There had been an earlier shimmer of expectation a week before the congressman's visit when two French hostages were released.

What hope now for the other 15 or so Europeans and Americans? What more can western governments do without simply giving in to blackmail? Does either the Syrian or the Iranian government have the power to make the kidnappers release their prisoners? And precisely

who are the kidnappers?

None of these questions has a simple answer. It seems, unfortunately, that the three western countries involved—America, Britain and France—are not exactly in step with each other. The line between showing flexibility and yielding to blackmail is not always clear-cut. The French claim that the expulsion from France of Mr Massoud Rajavi, a leading opponent of Iran's ruling ayatollahs, had nothing to do with the subsequent release of the two Frenchmen—although the groups that had been holding them are almost certainly Lebanese Shia Muslims who look to Iran's ayatollahs for inspiration.

The French government still sounds more hopeful than the other western governments about freeing the rest of the hostages. There is talk—coincidental, no doubt—of France repaying to Iran a loan made by the Shah in 1974. The kidnappers

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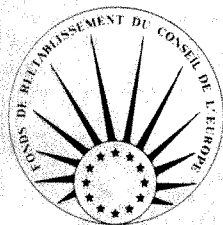
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pers may also want France to give a signal about reducing its supply of arms to Iraq. Mr Jacques Chirac, the French prime minister, has given the impression that he may be "flexible" to get his people back.

It is harder for America to show such "flexibility". Of the seven Americans kidnapped in Lebanon during the past four years, one was murdered after the American bombing of Libya in April, and Mr Assad told Mr Dornan that another had probably been killed earlier. (Yet another American, whose disappearance had not been thought politically motivated, was released on July 2nd.) The Americans may be hoping to coax some anti-terrorist co-operation out of Syria. Mr Assad, in turn, may be trying to advance his attempt to resume contacts with more conservative Arab regimes.

Britain has even less leverage than America. Palestinians and other Arabs occasionally ask Britain to release some the Arabs who are serving time in British prisons for politically motivated murders and bombings. But Mrs Thatcher is no more willing than Mr Reagan to strike bargains of that kind.

Any dealing with hostage-holding groups is frustrating and unpredictable. Although most of them owe some allegiance to Shia Islam, whose stronghold is Iran, you cannot, as a British diplomat put it, "just pick up the telephone to Tehran to ask them for help". Nor can Syria be counted upon as an intermediary.

Mr Assad's motives are unclear. He professes to have been striving all along for the hostages' release, but they are, for him, useful counters in a complex game of bargaining. What is new is that Mr Assad is now under great pressure, both inside Syria and in the wider Arab world, and therefore has more reason to use his wiles.

The other new element is that Mr Assad may have less control over the Shia zealots in Lebanon than before. He can still influence the fate of hostages—his powers of persuasion must have helped free the two Frenchmen—but he probably cannot have hostages freed by a mere snap of his fingers. At the end of June, Syria tried yet again to impose a new ceasefire on West Beirut. It was still holding on Thursday, and even the Hezbollah, the wild Shia "Party of God", has told its armed men to come off the streets. But the anarchy in Lebanon continues, and Syria's grip on that country-in-name-only is still weakening.

This may mean the Lebanese gangs that kidnap people will proliferate. No fewer than 33 such groups have admitted responsibility for acts of violence. Mr Assad can influence only some of them, and perhaps fewer now.

Rugby

The last of the shamateurs

FROM A SPECIAL CORRESPONDENT

Sport-watchers who still have an appetite for World Cups can look forward to two more next year—neither in soccer. One is cricket, whose world championship will be held in Pakistan and India. The other will be 15-a-side rugby union's first-ever world championship.

The rugby championship will be an odd affair, with Australia and New Zealand its joint hosts. Among the other 14 countries taking part will be such lesser-known rugby-playing nations as Italy, Romania, the United States, Canada, Zimbabwe, Japan and Fiji. But politics means that what may be the best team in the world, South Africa, will not be playing. And critics of the event fear it will destroy the amateur status of one of the few big sports that is still non-professional.

Not that rugby union's amateur condition is pristine. (A closely related sport, rugby league, played by 13 men a side, is fully professional.) There are widespread allegations of under-the-table payments to rugby-union players. In the 1970s, top

players in Wales and England were paid by Adidas to wear its boots, in what became known as the "boot-money scandal". In Britain even writing an autobiography has been enough to get a player banned from the game for life; but in New Zealand international players advertise products on television. In Eastern Europe, rugby is no more amateur than any other state-sponsored sport, such as soccer or athletics; only the payments differ. It is an open secret that rugby players are paid in France.

Rugby money changes hands quickest in South Africa. Players can get up to \$30,000 a year, either directly or as fringe benefits. It has been alleged, though not proven, that large payments were made to the rebel New Zealand team that recently toured South Africa. Some rugby enthusiasts think South Africa's exclusion from the world championship will make it even more inclined to lure players from abroad with cash.

"Let's make it professional," says a former England rugby captain, Mr David Cooke. Traditionalists counter that there is not enough interest in the game, at least in Europe, to support it as a business. Despite the success of the Five Nations Championship (England, Scotland, Wales, Ireland, France), club rugby in Britain is struggling. Few clubs make a

Hero of the month



Every hero becomes a bore at last, Emerson said. But hero-worship for Diego Maradona, who helped Argentina win its World Cup soccer victory over West Germany on June 29th, could last for several weeks. That is a long life for a contemporary hero.

Not many years ago heroes were prohibited. In their place there were anti-

heroes, previously known as cowards. The hero has made a modest come-back, but would be almost unrecognisable to traditional hero-worshippers. There has been no hero-soldier since MacArthur, no hero-politician since Churchill, no hero-scientist since Einstein, no literary hero since Hemingway, no heroic space-man since John Glenn, no heroic country since Israel in its first two or three wars after independence. There are plenty of local heroes, who lead campaigns to stop their village greens from being used to dump nuclear waste and that sort of thing, but local and hero do not seem words that belong to each other. A hero should be popular on a grand scale.

Sportsmen are rarely popular outside their sport because they are dull when not kicking balls or running races. Mr Maradona's appeal to the non-sporting public is that he looks so unheroic: a barrel of a man who has clearly eaten too much pasta. Had he been a bit taller and leaner round the waist, he would have been just another world-beater.

Bob Geldof is the most enduring of the new heroes, perhaps because he does not seem to care. Heroes are not expected to go in for self-advertisement. So Richard Branson, who did the other spectacular thing this week by driving a motor boat across the Atlantic, is not a hero. But, in the curious code of merit of the 1980s, he does get a badge for doing something daft.

INTERNATIONAL

profit. The income in 1984 of one top London club, Saracens, was £34,635 (\$54,000), and its expenses £38,171. How could such clubs go professional?

These arguments ignore both rugby-league play, which manages to exist as a professional sport, and the tonic effect that allowing advertising could have on

rugby-union revenues. The leaks in rugby union's supposed amateur status already make the claims of amateurism sound pretty thin. As a former Scotland captain, Mr Peter Kininmonth, puts it: "The real amateur who is holding down a responsible job cannot train every day; therefore he is not going to get into the side."

India

Love and squalor in Calcutta

FROM OUR INDIA CORRESPONDENT

Calcutta's middle class, and its government offices, are moving out. The decay and congestion are too much for them. So they are going east to Salt Lake City, built on filled-in lakes that used to provide Calcutta with fish. Their new home is well-planned, clean, has a working drainage system, and is as dull as New Delhi. Even so, its inhabitants cannot entirely escape Calcutta's ambience. On the way out to Salt Lake City, on the eastern bypass, taxi drivers cover their noses with handkerchiefs to mask the smell of tanneries and decades of garbage.

Calcutta will soon be left with the very rich and the poor. The rich are insulated from the city: they live in great white colonial mansions in Alipore, Ballygunge and Park Street, to the south of the city centre. They have generators, in case the electricity fails, and air-conditioned cars. The poor live everywhere: around 3m are in slums to the north and south of the city, which get worse the farther out of town you go, and 1.5m live on the pavements.

Most of the poor are Hindus who came from East Pakistan, now Bangladesh, when India was partitioned in 1947. Another batch came in 1971, during the civil war between East and West Pakistan. Over the years, other poor people have drifted in from the hungry countryside of eastern India—from the rest of West Bengal (the state of which Calcutta is the capital) and from Bihar and Orissa.

There are now 10m people in Calcutta, which the British built for 1m. Even with unlimited money, it would be hard to arrange for those people to live decently in a decaying city whose soggy climate stimulates rot. And Calcutta does not have unlimited money. The city complains that the central government discriminates against it. Both Bombay and Delhi have recently had injections of money to help put them in order, but in April the central government refused Calcutta's request for 8 billion rupees (\$640m). It has to be added that the Communist government which runs Calcutta has also discriminated against the city in favour of the countryside, where its most reliable supporters live.

Calcutta has received World Bank money—about 1.8 billion rupees over ten years—much of which has been spent on improving the slums. Some slum areas have electricity, tarred roads, public lavatories and a water supply. But the people who have benefited most from the improvements are landlords and the tenants who rent blocks of land and sublet the shacks on them. A house in a smart slum can cost 800 rupees a month, so the very poor have had to move even farther out.

The city's water is a bit cleaner than it used to be, but water is still in short supply. The electricity supply has improved in the past six months: it is cut only an hour or two each day (not much more than in Delhi), instead of five or six. But the telephone system offers a wild selection of wrong numbers. And while the poorest pick through the piles of rubbish in the streets for rags and newspapers and charcoal, the main roads are still littered with rotting garbage.

The drains have had it. A brief cloudburst leaves much of the city under a foot of water. Age and silt have destroyed the drainage system the British built, and the filling-in of the salt lakes has messed up the area's natural drainage. The municipal authorities have no map of the drains, so repairs are difficult.

A menagerie of government and private buses, trams and rickshaws blocks the roads, yet the suburbs do not have enough public transport. India's first underground railway, opened this year, will lighten the load a little. But the excavations for the metro have meant a decade of huge holes in the main streets in the southern half of the city, and the northern half is now getting the same treatment during the second stage of the project.

At least people have stopped moving into Calcutta. The growth rate of its population is now 3%, only slightly above the national average. By spending money on creating jobs in the villages, the Communist government of West Bengal has made the city relatively unattractive. Its economic decline means that no jobs are to be had: the streets are full of traders scraping a tiny living from secondhand



At home on the streets

magazines, goldfish and sugar-cane juice. Bombay is the boomtown that job-seekers flood to these days.

Calcutta houses an extraordinary mix of people. There are Chinese, who run the tanneries, Sikhs, who drive taxis, and Armenian traders. There is a small Jewish community and a large Muslim one. Yet at a time when religious and ethnic violence is commonplace in India, Calcutta has been peaceful. The Communist party has never gone in for organising riots: if only Congress party governments in other states were as virtuous.

Calcutta is the only city in India where a woman need not worry about walking around alone at night. It is India's most peaceful as well as liveliest place. It has street life: on Saturday night "big people, small people, love people" (as a taxi driver puts it) congregate in hundreds in the park opposite the Victoria Memorial to take the night breeze and cold drinks. Conversation is an entertainment not yet destroyed by television. People meet for *addas*, at which anything from the decline of Bengali socialism to film stars is discussed. Street-theatre groups come in from the countryside during the monsoon, and make good money performing Hindu myths or the life of Lenin.

For the Briton, Calcutta offers an indulgence in grand imperial architecture and the sometimes pompous perfection of the Bengalis' English grammar. Nowhere else in India will a secretary, pressed to say when his superior will be available, reply, "Madam, the time at which meetings start can be predicted. The time at which they finish cannot."

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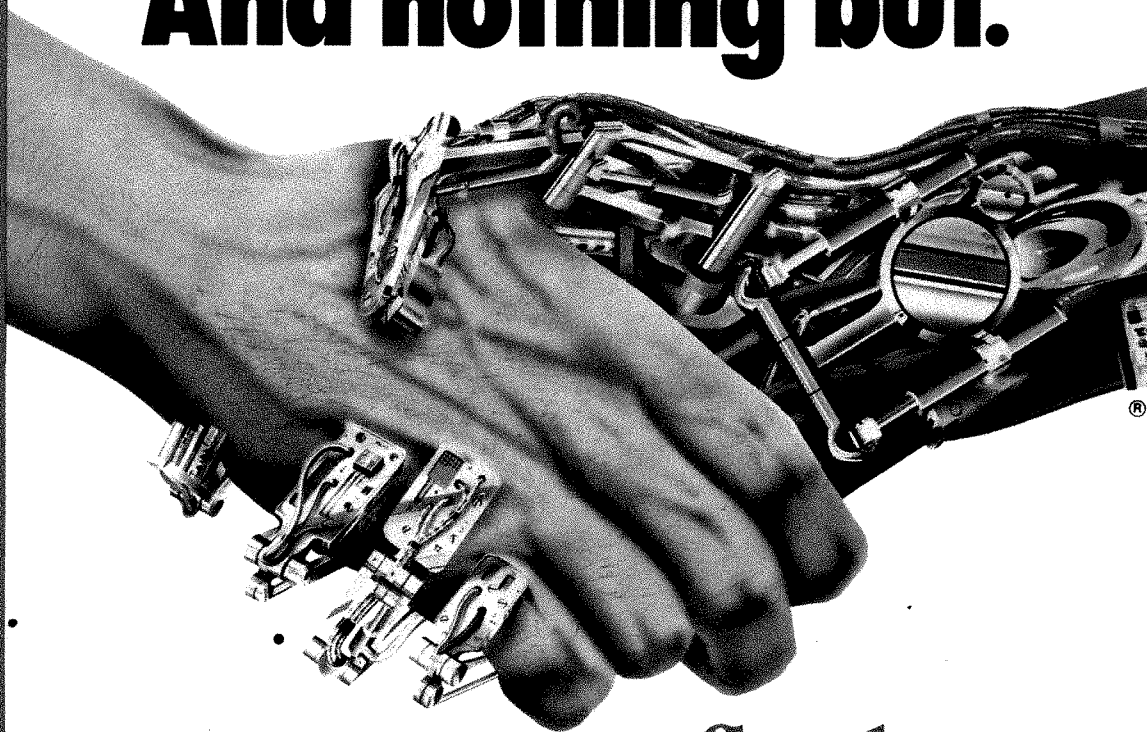
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AMERICAN SURVEY

Slow, slow, quick, quick, slow, uphill to the summit

WASHINGTON, DC

President Ronald Reagan and Mr Mikhail Gorbachev are foxtrotting, bumpily and with no evident enthusiasm, towards a probable summit at the end of the year. When they met in Geneva last November, they agreed to see each other again

Washington in 1986 and in Moscow in 1987. Mr Reagan, keen to keep Mr Gorbachev to this commitment, is concentrating on dates—though, in fact, nothing makes the 1986-87 calendar particularly immutable and the president could probably accept a slippage of a month or two. The Russians also want the meeting, but only if they can be assured that this time, unlike last November, it will lead to some tangible agreement on arms control.

Time and place have yet to be fixed for a pre-summit warm-up between the two foreign ministers, Mr George Shultz and Mr Edward Shevardnadze. The Russians cancelled the meeting that had been arranged between the two men in protest at America's bombing of Libya in April. American officials thought this response excessive; they recalled that in 1972 Brezhnev had not found it necessary to cancel President Nixon's visit to Moscow even when

American aircraft were bombing Soviet ships in Haiphong harbour. Mr Shultz allowed himself to sound irritable as he toured the Pacific last week: "If they don't want to have a meeting, there's nothing much we can do about it," said he. But on July 1st a Soviet deputy foreign minister proposed something about a "preparatory mechanism" for a foreign ministers' meeting.

Mr Reagan is exaggerating the progress in Soviet-American relations with his mood-music about "a turning-point", a phrase that he has used twice in recent speeches. The president wants to prove that his defence strategy, his sort-of-a-decision on SALT-2 and his decided assertiveness on regional issues pay dividends in Soviet amenability. He also wants, without being too specific, to persuade Mr Gorbachev

that a visit to Washington would be propitious; the Soviet leader is holding out for a tight assurance that he will not return from the next summit, as he did from the last, with his hands empty. So in these pre-summit times it is in America's interest to make it sound as if the negotiations on arms control are going rather better than they really are, and in Russia's interest to do the opposite; these positions were reflected in the comments of the chief negotiators at the end of the latest round of Geneva talks.

Yet, without the political gloss, the elements of a possible agreement are emerging. The latest Soviet proposals, including an offer contained in the letter from Mr Gorbachev that was delivered to Mr Reagan late last month by the new Soviet ambassador, Mr Yuri Dubinin, suggest that a compromise deal on medium-range missiles in Europe and Asia could be fixed quite quickly. And the framework of a more ambitious scheme is

beginning to become more distinct: some restrictions on the development of defensive space weapons, in exchange for deep cuts in long-range offensive missiles.

The questions asked about the American side are whether it can work out its internal debate on these issues and, if so, how it can be achieved during the summer's sleepy months. Any progress in the near future turns on arms control. It is inconceivable, so long as Mr Reagan remains president, for the United States to compromise on the support that America has committed to three or four third-world guerrilla movements fighting governments supported by the Soviet Union.

On arms control, it is as inaccurate as ever to speak of so cohesive a body as "the administration". Even Mr Reagan's own instincts are divided. He could, given adverse circumstances, return to the phase of saying publicly (as he still does privately) that the Soviet Union is an evil empire. But the president would dearly like the political fillip that a couple more summits, linked with respectable arms-control agreements, would give to the last years of his presidency. And he appears genuinely to believe that Mr Gorbachev is a man he could work on, especially if he could get him back to the homely surroundings of his ranch in California.

Mr Caspar Weinberger, the defence secretary, is a consistent fellow who still heads the league of administration doubters; he dismisses the latest Soviet concessions as tactics. There is nobody in the administration with Mr Weinberger's weight of office, plus his weight with the president, to argue the opposite point of view. The departure of Mr Robert McFarlane from his job as national security adviser has left a gap; Mr McFarlane was no dove, but he believed that star-wars research could eventually provide the United States with an unmatched lever to force a reduction in strategic nuclear weapons.

Who then, with easy access to the president, can argue that an accommodation with the Soviet Union might, with caution, be desirable? Mrs Nancy Reagan, for a start. Mr George Bush, the vice-president, so far as he deems it expedient. And, from the sidelines, ex-President Richard Nixon, whom Mr



AMERICAN SURVEY

Reagan consults by telephone quite often. There is also Mr Paul Nitze, who, more than anybody else, has the intellect and the background to negotiate an agreement that serves America's best interests. But Mr Nitze, in practice if not in name, is arms-control adviser to Mr Shultz, not to Mr Reagan.

If Mr Reagan decides that a summit is his priority, his next task is to overcome the calendar's awkwardness. The official arms-control talks have shut down until mid-September. Negotiation by letter or pronouncement is plainly unsatisfactory. One self-serving yet perhaps promising suggestion has been made by the Soviet Union's ex-ambassador to Washington, Mr Anatoly Dobrynin, who has gone back to Moscow after 24 years in the United States to become head of the Central Committee's international department; he thinks more could be accomplished through the American ambassador in Moscow, Mr Arthur Hartman. If such negotiations went well, a plenipotentiary, perhaps even Mr Nitze himself, could be dispatched, quietly, to Moscow. And if Mr Reagan was really keen, the summer months might be thought too precious to waste.

America and Britain

More than Reagan and Thatcher

WASHINGTON, DC

For the sophisticates of Washington, those who would never be caught saying "Eurowimps" in public, being a good ally of America does not mean agreeing with everything that America does. It means support, certainly, and recognition that America carries a lot of water for the West. But it also means being prepared to speak one's mind.

By such tests, Mrs Margaret Thatcher has been a good ally, and Americans like to think they have repaid the favour. The recent visit of Mr George Younger, Britain's defence minister, nicely summed it up. He expressed support for American policy, but did it while placing—as if the wish could equal the fulfilment—the most dovish interpretation possible on President Reagan's decision to abandon SALT-2. He made it clear that Britain's agreement to the use of its bases for the raid on Libya in April set no automatic precedent for future requests. In their turn, the Americans signed two contracts for work in Britain on the Strategic Defence Initiative (SDI) and gave other favours: during Mr Younger's visit, it is believed, the warhead that will arm the missiles on Britain's Trident submarines was tested.



Younger and Weinberger: smiling despite the warts

Critics would say that from Britain's point of view this amounted to little. Trident is still expensive; the SDI contracts were for only \$13.4m, far short of the \$1.5 billion-worth of work for which Britain had once hoped. But more SDI money is said to be on its way. Besides, Americans do not have to remind Britons of such favours as the president's strong support for the new extradition treaty between the two countries. They can, and do, say "the Falklands", when pressed on the nature of their contribution to the alliance.

Americans have at least as much cause to worry whether the friendship is benefiting them—or rather whether it will continue to do so. The present strength of the bond between Britain and America partly depends on the strength of the relationship between Mr Reagan and Mrs Thatcher. But policymakers in Washington know that Mrs Thatcher has had a rough six months, and that in a couple of years Mr Neil Kinnock could be Britain's prime minister.

They do not know Mr Kinnock well; what they do know, they do not like. Memories of his only visit to America as leader of the Labour party, in 1984, are still vivid. It is said that he was rude in public about the secretary of state, Mr George Shultz, with whom he had a row over Central America. He and his team are thought to be inexperienced. And those of his colleagues who have American contacts are sometimes accused of saying in private what they will not defend in public; such spinelessness wins few friends. Above all, American officials are bothered by what they see as a naivety

in Labour's policy. Politicians and officials of all stripes regard as absurd the proposition that American troops might stay in Britain if American nuclear weapons did not. Domestic political pressure in America would make it impossible.

American concern over Mr Kinnock and his policies has to be placed in a broader, European, context. Soft-hearted officials will say, wistfully, that the disagreement between Europe and America over the raid on Libya was a classic example of a policy that went wrong; if only the Europeans had done what they were asked to do before the raid (and willingly did after it), no bombs need have been dropped. The more hard-headed say that Europe was living in a dream world, and that in any event the raid has justified itself. Both know that widened a damaging rift.

Labour's unilateral defence policy is only one way—albeit, given Britain's present support, an important one—in which the rift might be further widened. Within days of taking office, the new left-of-centre minority government in Norway (which has defence policies much closer to America's than the British Labour party has) was represented at a defence ministers' meeting. It promptly entered a note of reservation over the use—or non-use—of SDI as a bargaining-chip in arms-control talks. Denmark plays that kind of game constantly, and annoyingly. Troubled Americans worry what would happen if the Social Democrats came to power in West Germany, reflect on their row with New Zealand (which is no longer to be protected by an American nuclear umbrella) and could be forgiven

for thinking that northern European stock is a good deal less than dependable.

This matters, because these same people, paid to worry, do not want an America cut off from Europe. But they know that the popular pressures that would say "sod 'em" to ungrateful Europeans can also be found among bright young men in right-wing think-tanks, who ask, in these budget-clipping days, why a Western Europe that is richer and more technologically advanced than Russia should depend on America for its defence.

The worriers know, too, that the rise of young, relatively Eurocentric politicians like Mr Kinnock points to an inconsistency in American policy. America has said since 1945 that it wanted to see a strong and united Europe; but not a Europe which, at the NATO tables, acted as a block against the United States, and not a Europe which acted as a united economic

er, if that meant American farmers and businessmen getting squeezed out of profitable markets. It is not surprising that those who value the alliance most deeply should be worried. All the more testimony to an American generosity of spirit that a state department official can say, and mean, "Better a unilateralist Neil Kinnock elected to office than no election at all. That is what the alliance is all about."

The Fed

Montesquieu makes trouble

WASHINGTON, DC

It is one thing to write a great work of political theory, another to be asked to it into practice. More than a few ericans must be wishing that when Locke and Montesquieu dreamt up something as elegant as the separation of powers, they had thought a little of how bothersome it would be to fit every bit of twentieth-century government into one of three branches, while making each subject to checks by the other two.

Ten Americans in particular are bothered: five members of the Federal Reserve System's open market committee, and their five alternates (substitutes). The committee, 12 strong, was established by statute in 1934, and its dealings in government securities are the central method by which the Fed carries out America's monetary policy. Seven members of the committee are members of the Federal Reserve Board, officers of the United States, and appointed, as the constitution prescribes, by the president by and with the advice and consent of the Senate. But the other five, and their

alternates—no less federal officers—are selected by the 12 reserve banks that make up the Fed system; the directors of those banks are, mainly, commercial bankers. No president appoints these nine men and one woman, and no senator confirms them.

At least one senator, Mr John Melcher, a Democrat from Montana, is unhappy at being left out. He is not the first member of the upper chamber to have felt this way. In 1979, Mr Donald Riegle from Michigan was similarly piqued; like Mr Riegle, but with much more success, Mr Melcher has taken his case to the third, co-ordinate and (as "The Federalist" would have had it 200 years ago) least dangerous branch of the government.

On June 5th, Judge Harold Greene, hitherto best known for presiding over the break-up of the Bell telephone system, decided that Senator Melcher had standing to challenge the constitutionality of the appointments of the ten. The Fed and the Justice Department had argued that he did not; his action, they alleged,

amounted to an implied squabble with his co-legislators. His remedy should be to persuade them to amend the 1934 act. Under the separation of powers, the court should stay out of this intra-branch fight. Judge Greene did not stay out, and nor has the court of appeals, which on June 24th rejected a further motion by the Fed and the Justice Department to stay the case.

The petitioners argued, this time, that if they were forced to supply legal argument on the merits of the case to Judge Greene, they would provoke "unsettling effects on the financial markets". Those markets, it seems, are worried that any tinkering with the open market committee might prejudice its independence, and diminish the power of the Fed chairman, Mr Paul Volcker, to continue his stern control of monetary policy. At least as compelling a reason for the attempt to stay the case, many feel, is that the Justice Department knows that the constitutionality of the appointments to the open market committee is indeed shaky, but is

Dished

America's dish makers, who until the beginning of this year were enjoying a boom, are displeased. The market for dishes—the antennas that pick up television signals from satellites—has gone into abrupt decline.

In the past few years, the number of channels beamed from the heavens to American homes has grown to 80 and the number of dishes to receive them has risen to about 1.7m; in 1985, they almost doubled. They have become a part of the landscape, adorning hotels, motels and apartment buildings in big cities and desecrating back yards in smaller towns and open spaces everywhere. They are particularly valued in remote places where conventional television transmission is poor and cable does not reach.

But since January, two of the main programmers, Home Box Office and Cinemax, have been scrambling their signals, making it impossible for dish owners to tune into their channels unless they pay a monthly fee to the programmer or buy an unscrambler of their own for \$200 or \$300. The pay-television channels are fed up with people picking up their programmes for nothing, particularly if they are owners of hotels, motels or other large buildings, who then charge viewers for the right to watch.

Scrambling the signal has also scrambled the market. The Electronics Industry Association, which had been expecting sales of about 700,000 dishes this year, has changed its forecast to a mere 400,000. And the main manufacturer of unscramblers has sold only some 15,000 devices.



Receiving mixed signals

Dish owners, already unhappy about local laws restricting the siting of their contraptions, have turned to Congress to help them stop the signal-scrambling, so far without success. Some now believe that the Justice Department will intervene on antitrust grounds; it is carrying out an investigation. But the owners' strongest ground for hope is that their resistance will hurt the pockets of the programmers. By the time that happens, however, as many as three-quarters of the dish makers may have gone bust.

AMERICAN SURVEY

trying not to say so.

In fact, one half of the department's collective mind would be delighted if the open market committee lost. Since last year, the attorney-general, Mr Ed Meese, has protested about the way that independent agencies—like the open market committee—have come to represent a fourth branch of government, one that Montesquieu and the Founding Fathers did not envisage. According to Mr Meese, power granted by Congress should be properly understood as power to the executive, meaning that the holders of that power should be under presidential control.

The difficulty for Mr Meese is that the open market committee is the wrong horse to be saddled with his constitutional views. If something like the Consumer Product Safety Commission had been challenged, the Justice Department might have watched it squirm with equanimity. But the markets do, indeed, take the committee seriously, and they would be worried if it lost its independence to friends of Mr Meese. Some on Wall Street are probably worried enough by recent appointments to the Federal Reserve Board itself.

What is to be done? Mr Bruce Fein, once an official at the Justice Department, suggests an ingenious answer. There are precedents, he says, for executive guarantees of the independence of government agencies. The Watergate prosecutors, for example, were guaranteed freedom of action by the Justice Department. Why not accept that the members of the open market committee have to be appointed by the president, and confirmed by Mr Melcher and his colleagues, but then make them subject to an executive order guaranteeing their independence from meddling by the president, Treasury or anybody else? Would that satisfy Messrs Melcher, Meese, Volcker and the markets? It might.

The budget

Avoiding the big chop

WASHINGTON, DC

Congress has produced a budget resolution, of sorts. Those who like it offer only lukewarm praise; those who dislike it do so wearily. Catching the mood, the White House first pronounced the plans "generally acceptable" and then complained about them.

The resolution, agreed to by the House of Representatives and the Senate just before the July 4th break, provides for \$1.1 trillion of budget authority in fiscal

1987, \$995 billion of outlays, and assumed revenues of \$852 billion. The deficit, on these figures, would be \$142.6 billion; on paper at least, this is within the limit of \$144 billion laid down for next year by the Gramm-Rudman budget-balancing bill.

In the short term, most attention will be paid to defence. President Reagan asked for \$320 billion for the Pentagon next year; the Senate would have given him \$301 billion, the House \$285 billion. They have split the difference at \$292 billion. But if he decides to use a new contingency reserve, Mr Reagan could squeeze another \$3 billion out of Congress for defence, so long as he offered offsetting cuts and revenue increases. He is likely to try. Unless he does so, the Pentagon will have to make cuts in manpower and readiness; only about 15% of the money authorised for procurement is spent in the first year of a budget, so procurement offers few savings.

In time, the larger question of this

budget's deficit will have to be addressed. Though at first sight Gramm-Rudman's requirements have been satisfied; few analysts are persuaded. The reason for the pessimism lies in the figures for expected revenues. Already, a sluggish economy has meant that the likely deficit in fiscal 1986, which ends on September 30th, is being scaled up to \$215 billion from the \$202 billion projected in February. The Congressional Budget Office assumed revenues of \$844 billion in its baseline budget for 1987, \$8 billion less than Congress's new figure. But the CBO is doing its sums anew. Though most analysts had expected revenues in 1987 to be \$10 billion-20 billion less than the CBO's original figure, the likely shortfall may, some people now believe, exceed \$20 billion. That would be quite enough to breach the Gramm-Rudman limits and provoke automatic cuts, always provided that the Supreme Court does not rule such cuts illegal.

Welfare reform

Democratic head-scratching

NEW YORK

With tax reform on its way to becoming law, the next suitable case for congressional miracle-making may well be the welfare system. Last winter President Reagan helped set off a national debate by asking three task forces to re-evaluate all federal hand-outs; their reports are due by the end of the year. The Democrats, fearing a further erosion of benefits for the poor but sharing Republican worries about welfare dependency, are now casting about for their own alternative to Republican reform.

The starting point for most revisionist thinking about welfare has been the belated discovery of a largely black underclass, hooked on welfare and worse, consisting of unmarried teenage mothers, wastrel fathers and other anti-social elements, clustered in a closed inner-city culture where the work ethic is moribund. For the past six months this underclass has rivalled AIDS and cocaine as an object of morbid press contemplation.

A study in the *Atlantic* explains the dependency of many urban blacks as a



Day care would be a liberation

Madly for Adlai

It is not Mr Adlai Stevenson's year. The former senator and son of the Adlai Stevenson who twice ran as the Democrats' presidential candidate would like to be governor of Illinois. A few months ago his chances looked promising: he had come within a few thousand votes of winning last time round and people were perhaps growing a bit bored with their three-term Republican governor, Mr James Thompson.

But then a jinx descended on Mr Stevenson's hopes. The trouble started at the Democratic primary in March. Mr Stevenson easily won the nomination for governor. But a complacent state party had not bothered to make sure that the electorate was familiar with the names of its candidates for lieutenant-governor and secretary of state. As it happened, both candidates possessed ethnic names that did not fall sweetly on the ears of some Illinois voters, particularly those down-state people who equated ethnic names with old-fashioned Chicago machine politicians. So they chose a Mr Mark Fairchild and a Miss Janice Hart. These two, it turned out, were members of the unpleasant fringe group run by Lyndon LaRouche.

Mr Stevenson, who declined to run with such people, had to start all over again. He has been trailed by misfortune, including such physical mishaps as a toss from his horse and a fractured foot. He lost a federal court appeal to run as an independent. He started a new party called Solidarity but was told that the name belonged to a Polish-American community in Chicago; he changed the name to the Illinois Solidarity party.

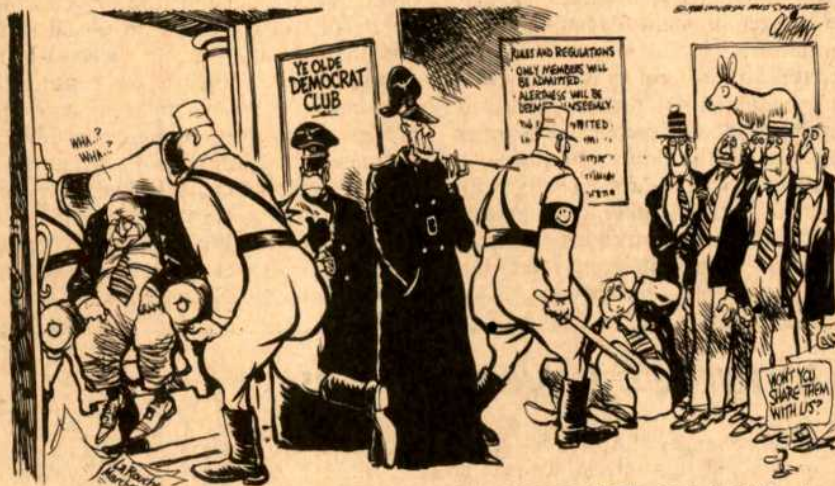
CHICAGO

He has to collect 25,000 signatures by August 4th in order to appear on the November ballot and this is not proving as simple as it should. The signatures probably have to be different from those of the voters who endorsed him as a Democrat (state law is unclear on this point) and, another administrative absurdity, many names have had to be withdrawn because of a typographical error in the petition. A more serious drawback is that Mr Stevenson's campaign is broke. Mr Thompson's campaign, by contrast, is rich.

The complications do not end there. If Mr Stevenson reaches the ballot, voters will be asked to punch their button three times: once for Solidarity's governor and lieutenant-governor (who run on a single

ticket), once for Solidarity's secretary of state, and once for all the other candidates on the Democratic list. Mr Stevenson was obliged to pick a complete slate of candidates but, except for the new lieutenant-governor and secretary of state, he does not want them to steal votes from their counterparts on the Democratic list.

The delicate part of the operation has been to choose these people on the Solidarity list. They have, Mr Stevenson insists, to be respectable. At the same time, the pukka Democrats insist, they should not be good enough, or even sound good enough, to be actually chosen. Remembering the Illinois electorate's penchant for pretty names, it is not altogether surprising that some of the people featuring on Mr Stevenson's list, such as the estimable Mr Einar V. Dyhrkopp, do have a rather far-fetched ring to them.



make it mandatory and impose sanctions for non-compliance. Congressman Harold Ford of Tennessee is reviving a bill, which passed the House last year but failed in the Senate, to extend benefits to indigent families with resident fathers (ineligible in more than half the states). Another clutch of bills would expand financial aid for day-care programmes.

Day care is the new cry. On June 25th another Democratic presidential hopeful, Governor Bruce Babbitt of Arizona, called in the Washington press to describe how well his state has done in providing after-school supervision for latchkey children and means-tested subsidies for child care. The House Democratic Caucus has just released a batch of policy papers, advocating child-care and medical benefits as "crucial considerations" for coaxing mothers off welfare. The Democratic policy commission's report, due soon, is expected to say that affordable child care is the first requirement for families of all social classes.

Republicans are joining in too as they come to realise that today's American family is not the one painted by Norman Rockwell and the Moral Majority. If party rivalry can produce incentives for productive families rather than punishments for the non-conforming and non-competitive, then welfare may yet rival taxes as the reform of the decade.

Sodomy

Limits to privacy

WASHINGTON, DC

The Supreme Court has decided—by one vote, as so often happens these days—to leave untouched an anachronistic law in Georgia that makes sodomy a criminal offence; 23 other states and the District of Columbia have similar laws. The right to privacy, the justices ruled, should not be extended to a form of conduct that has been historically condemned and is still widely outlawed; that it should occur in private, and between consenting adults, whether men or women, was not reason enough.

The court has ruled over the years on many matters that were not on the Founding Fathers' minds when they composed the amendment that protects the liberty of the individual. In sexual matters, the zone of privacy has been extended to include the right to use contraceptives and a woman's right to end her pregnancy; state governments have been instructed that they should not interfere in such personal choices. Justice Byron White, who wrote the majority opinion in the sodomy case, also dissented over abortion. He argues that the court should extend its protection to rights not speci-

fied in the constitution only if they are "deeply rooted in this nation's history or tradition" or "implicit in the concept of ordered liberty". To suggest that sodomy was a fundamental right was, he said, facetious. Homosexual acts were illegal in all 13 original states and in all 50 until 1961.

Justice Harry Blackmun disagreed with this opinion so passionately that he took the unusual step of reading much of his dissent aloud. The case, he said, was not about whether there is a fundamental right to engage in sodomy but about "the most comprehensive of rights and the right most valued by civilised men, namely the right to be let alone."

Homosexuals will now have to struggle harder to be let alone. The laws against them are on the books in 24 states, most of them southern (19 forbid heterosexual as well as homosexual sodomy), but criminal prosecutions are rare; the vision of midnight police raids into people's bedrooms is nonsense. Yet the legal effect of the ruling is likely to be serious: homosexuals may find it harder to win child-custody cases, or to fight back when they are illegally fired or refused housing. And the indirect social effects may be even more chilling, recharging the batteries of those who, suffering from an unfocused fear of AIDS, already hold homosexuality to be a sin.

Congress saves the day

On the first Sunday of April 1987, Americans will put their clocks forward an hour, allowing themselves an extra three weeks of "daylight saving time". That little adjustment, approved by the president at the end of June, has cost some sweat in Congress. Americans at present have six months of daylight saving, from the last Sunday in April to the last in October. Until 1966, they had none at all, except to save petrol during the first and second world wars. Experiments to extend daylight saving to eight months or a year, again to save fuel, were made in the mid-1970s, but they did not last. Time stirs up the emotions.

Daylight saving makes the mornings darker, and so the present bill was most vigorously opposed by the early-risers of the farm states. The 30% of farmers with second jobs, it was said, would have to get up in utter darkness to do farm chores before work. Those who make hay or gather soybeans would have to wait for the sun to rise before the dew dried off the crop. Would-be evening revellers might find themselves having to make up their fieldwork instead, in the late twilight. Their children would have to wait for the morning school bus in the dark. The social fabric of the farm states,

in short, would not long survive.

To these objectors were added Orthodox Jews, who cannot begin their prayers until 45 minutes before sunrise and so, if delayed, might be late for work; AM radio stations, which need "pre-sunrise authorisation" to broadcast before dawn; and those who think that time ought to be organised only by God.

Senator Wendell Ford of Kentucky spoke disparagingly of after-work tennis games that might be played by long-evening loungers in Washington, DC. But the daylight-saving side had better arguments than tennis. Golf, for instance: with about 19m more rounds being played on the lighter evenings, \$35m more might be spent on golfballs. Or baseball, with a 15% increase, perhaps, in the number of games; or barbecues, with a putative increase of \$56m a year in sales of charcoal briquettes. The Department of Transport reckoned the measure might save 100,000 barrels of oil a day, and cut road accidents. Such arguments eventually prevailed.

States are still allowed to opt out of daylight saving time altogether. Alaska, Hawaii and Arizona do so. So, more absurdly, does the part of Indiana that sits within the eastern time zone. There,

in the town of Vevay, residents change their clocks more or less as they like. The courthouse acknowledges daylight saving; the sheriff does not.

The situation in Vevay is complicated because it sits at the western edge of the eastern time zone. Those farther west in a time zone get longer evenings and darker mornings than their neighbours to the east. But most Americans seem to like that. The most powerful argument for daylight saving may be the slow creep of the time zones since 1918, when they were introduced; of 40 changes made, all by popular demand, 37 have moved the boundaries westwards to make the sun set later on the baseball diamonds and the cottage doors.



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Re-thinking souls of Russia: Pushkin, Tolstoy, Pasternak; and Yevtushenko lends two hands

The stories they told in Moscow

Two new literary stars may be about to rise in Russia. One of them, Boris Pasternak, died in disgrace in 1960. The other, Nikolai Gumilev, was executed in 1921. Dates are of immense importance to a Russian writer. For not only has he to write his novel or poem and find a publisher, as a western writer has to, but he should preferably be alive during one of the occasional "springtimes" when the censors are briefly rested.

Neither Pasternak nor Gumilev had much luck in this respect. Their ghosts have had to wait until now for the signal that, if still not an asset to the state, at least they appear no longer to be a threat to it. This signal has been given at the congress of the Soviet writers' union, which is held every five years, and has just concluded its proceedings in Moscow. How strong the signal turns out to be will be a test of whether Russia is in another period of genuine artistic liberalisation, or another cruelly brief spring.

To be fair to the Communists, it has to be said that censorship in Russia long predated the revolution of 1917. Lists of forbidden books have existed there since the eleventh century. The first great work of Russian literature, Pushkin's "Eugene Onegin", had to pass through the censor. Tolstoy's attacks on church and state resulted in his excommunication and in government animosity. Dostoyevsky spent ten years in camps and exile.

But people expected better from the revolutionaries. The luckless Gumilev came back to Russia after the revolution from a stay in England and was accused of plotting the return of the monarchy (actually, his most subversive idea was that countries should be ruled by poets). According to the Moscow rumour factory, he has returned to favour because Mikhail Gorbachev's wife, Raisa, likes his poems (a more visible campaigner was the poet Yevgeny Yevtushenko). No wonder Russian writers seem obsessed with fate. At any rate, Gumilev is now being published in the weekly *Ogonyok*. Its editor, Mr Vitaly Korotich, attended the writers' congress and afterwards said staunchly, "Censorship must not interfere in the purely literary process."

Pasternak was certainly an uncomfortable mind for the Communists. His novel "Dr Zhivago" is about the experiences of the Russian intelligentsia before and after the revolution. It has never been published in Russia, although his earlier poems managed to get through the censor. Around 1933 Pasternak started what he called a "long silent duel" with Stalin. He was bitterly attacked in the Soviet press when he was awarded the Nobel prize for literature in 1958, and died two years later.

Mr Yevtushenko also appears to be leading the campaign for the rehabilitation of Pasternak. Mr Yevtushenko is a

nonconformist poet—a bit on and off in his nonconformism, it is true—who became famous during Nikita Khrushchev's spring (which in 1962 flowered Mr Alexander Solzhenitsyn's labour-camp novel, "One Day in the Life of Ivan Denisovich"). He persuaded the congress to support a plan to turn the writer's former dacha outside Moscow into a Pasternak museum. As recently as two years ago Pasternak's son, Yevgeny, was evicted from the dacha.

Mr Yevtushenko said he was in favour of "Dr Zhivago" being published in Russia, at last. He seems to carry some weight with the establishment. He and another less than wholly line-toeing poet, Mr Andrei Voznesensky, were elected officials of the writers' union. So was the poet-songwriter Bulat Okudzhava, the Bob Dylan of Soviet popular culture. Mr Vladimir Karpov, the editor of the main literary monthly *Novy Mir* and a man who has fought many an unseen battle with the censors, was elected as the union's new first secretary. These encouraging changes followed the removal last month of Mr Pyotr Demichev from his job as minister of culture, a post he had held for 16 dreary years.

The writers also want more freedom for playwrights and film-makers. Mr Mikhail Shatrov said that he has talked about this to Mr Gorbachev; he did not say what the result of the meeting was. Mr Shatrov wrote "Dictatorship of Conscience", the play, now running at the Leninsky Komsomol theatre in Moscow, most often offered as proof of a relaxation under Mr Gorbachev. It uses the device of a trial to explore a range of Soviet taboos. Some 60 theatres and a number of film studios are being allowed "as an experiment" to

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decide what to produce without checking with a higher authority.

The recent election of Mr Elem Klimov to lead the cinema union was virtually an act of mutiny by the film-makers. Mr Klimov won the Moscow film festival's top award last year with his movie on wartime Russia, "Go and Look". But he had run into trouble with the authorities over all his other films.

The reported ending of the state censorship body called Glavlit was generally applauded (Mr Yevtushenko's influence may have counted here too: he is said to have written to Mr Gorbachev last August arguing that Glavlit should go). But not everybody believes that it will make all that much difference: the party organisation will still have its apparatus for ensuring that culture stays on the tram-lines. One writer agreed this week that there is a feeling of "excitement and experiment" in Russia. And freedom? Not exactly that. Mr Gorbachev has said that Russian literature should be "more interesting", by which he may mean a livelier vehicle for ideas he agrees with. His ideology chief, Mr Yegor Ligachev, is no liberal.

The parting comment of Mr Georgy Markov, who stepped down—or rather fell down, since he reportedly collapsed while delivering his speech—as first secretary of the writers' union after 15 years, was that literature needed more uplifting heroes in the traditional mould. Not a very uplifting comment. As the congress was meeting, the international writers' organisation PEN noted that more writers are being held in jails, psychiatric wards and labour camps in Russia than in any other country.

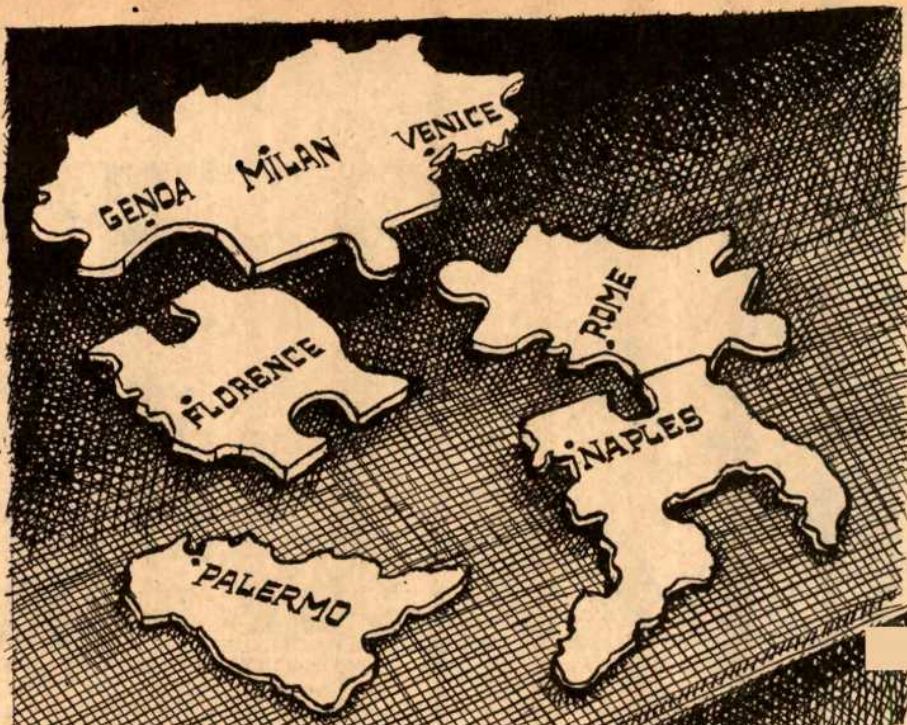
The congress, attended by some 600 writers, was held in private. No foreign journalists were allowed in, not even communist ones. Information about the congress in this article came secondhand from people who had attended it. Will Mr Gorbachev's new culture apparatus pass its first test, and allow a full account of the congress to be published in Russia?

Italy

Fine Italian hand

FROM OUR ROME CORRESPONDENT

A week after Mr Bettino Craxi's coalition was defeated on a parliamentary vote of confidence, it was still not clear whether Italy's Socialist prime minister would be asked to try to lead a government again. But, as happened in the government crisis caused by the *Achille Lauro* affair last year, Italy's President Francesco Cossiga has reserved the right to refuse Mr Craxi's proffered resignation.



The Craxsy coalition

The government was defeated on June 26th, over an apparently minor local-government finance bill. The government has often resorted to making such issues a matter of confidence, to avoid the ever-more-frequent defection of members of the governing majority in parliament. Rumours of an imminent parliamentary ambush were thick in Rome that day; the benches of both opposition and government parties were unusually full. In a first vote by show of hands, the government's bill was approved by 338 votes to 230. Just four minutes later, in the compulsory secret ballot which followed, the bill was defeated by 27 votes. Some 70 members had switched sides.

Who did the switching? One explanation was that disgruntled office-seekers, angry at the slow turnover of jobs in Mr Craxi's administration, were responsible for the rebellion. Another finger pointed to the Christian Democratic leader, Mr Ciriaco de Mita, as its covert organiser. Relations between his party and the Socialists had worsened since Mr de Mita sought a commitment from Mr Craxi that he would stand down by the end of the year. In May, Mr de Mita told his party congress that, being the largest party in the five-party coalition, the Christian Democrats had a right to the prime minister's office. The government's defeat last week suggests that at least some of his party took him at his word.

The Christian Democratic "sharpshooters" in parliament were almost certainly also joined by a few Socialists who thought they were doing Mr Craxi a favour by forcing things to a head. Mr

Craxi seemed in a curiously good mood on the day he handed in his resignation. It was Mr de Mita who looked worried. He let it be known that he would have preferred a crisis after next year's budget had been approved. He now seems to have been persuaded by Mr Cossiga that Mr Craxi should be allowed to remain in office until the next general election, which does not have to be held until the summer of 1988. He has even agreed to disarm the "sharpshooters" by abolishing the use of the secret ballot on items of economic legislation.

Mr de Mita appears to have posed only one condition for rejoining the coalition: that Mr Craxi campaign at the next election as a loyal partner of the Christi Democrats. That party's nagging fear—that the Socialists could drift into an alliance with the Communists. If Mr Craxi accepts Mr de Mita's condition, his new government will be even stronger than the old one. If Mr Craxi refuses, Mr de Mita will probably put in a caretaker to prepare a swift election.

French Socialists

Cheer up, tomorrow may never happen

FROM OUR PARIS CORRESPONDENT

"Any party that can argue in this heat deserves to win." Thus a jacket-and-tieless Mr Louis Mermaz, member of parliament for Isère and former president of the National Assembly, in a sweltering

basketball gymnasium on the outskirts of Paris where France's Socialists held a national convention on June 28th-29th. The convention—a smaller and less formal meeting than the two-yearly party congress—was called to mull over the party's future after its defeat in the parliamentary election last March.

Some Socialists on the party's right wing, such as Mr Michel Rocard, had looked forward to the convention as a chance to "modernise" their party—to march it squarely to the centre where, they believe, the floating voters are. It is not enough, in Mr Rocard's view, that Socialist ministers governed virtually as conservatives in their last three and a half years. As a party, Socialists are still hobbled, he thinks, by outdated code-words that turn off today's practical-minded voters.

Many Socialists, including Mr Laurent Fabius, the second of Mr Mitterrand's two Socialist prime ministers, privately agree. The combined vote for parties of the left in France now hovers at just under 45% of the total vote. This gives the Socialists a serious problem if they wish to remain an alternative party of government instead of drifting back into semi-permanent opposition.

The figures are stark. The Socialists, it is true, now dominate the left: in 1978, they won 51% of the left's vote, in 1981 68% and in 1986 72%. Yet the left is declining as a whole. In 1978, Socialists, Communists and the small parties of the left together



Come, be practical, says Rocard

won 49% of the vote, in 1981 55% and in 1986 44%. The big score in 1981 is deceptive. That year, almost a third of France's voters either abstained or spoiled their papers. The left's share of the whole electorate (39%) in that landslide year was actually lower than its share (40%) in its losing year of 1978. In 1986, the left's share of the electorate was only 33%.

Yet even Socialists who accept that they face a long-term problem in winning back a majority in parliament spy in the Elysée an excellent short-term chance.

For the popularity of their leader, President Mitterrand, far exceeds the standing of their party. In the presidential election, which is due by the spring of 1988 at the latest, incumbency is the Socialists' strongest card. Why deflect attention from Mr Mitterrand with a row over party slogans and doctrine?

This argument was ably deployed before the convention even met by Mr Lionel Jospin, the president's place-man in the party, with the title of secretary-general. Since most Socialists are also *Mitterrandistes*, Mr Jospin had a willing audience. The factions led by Mr Pierre Mauroy, Mr Mitterrand's first prime minister, and by Mr Jean-Pierre Chevènement were inclined to agree. Even Mr Rocard and his followers meekly accepted that their longed-for showdown between the ancients and moderns would have to wait.

Suitably for a presidential election rally, the convention podium was decked with a Tricolor. One speaker after another talked of the Socialists as the party of France and of the conservatives as the representatives of special interests. The emphasis, to be sure, differed with the speaker. Mr Mauroy, an old-fashioned Socialist from the declining industrial north-east, wanted the party to concentrate on attacking the new conservative government of Mr Jacques Chirac. Mr Chevènement, the leader of a no-longer-very-left faction, outlined a centre-left Gaullism, which would rescue France

The law of the name

FROM OUR PARIS CORRESPONDENT

France's neo-liberals will have a struggle if ever they try to privatise French names. In France, names are public property. Choosing or changing them is a matter of state.

On July 1st a new law for surnames came into effect. This allows French men and women to add their mother's last name to that of their father, in any order. Monsieur Philippe Dupont, son of Maurice Dupont and Sophie Dubois, can now, if he wants, call himself Philippe Dupont-Dubois, or Dubois-Dupont. Even if he writes to his mother every Sunday, he cannot call himself Philippe Dubois.

Such liberties are not given away. To avoid confusion on official documents, Philippe will have to spell things out as follows: Dupont (Dupont-Dubois), or Dupont (Dubois-Dupont). The authorities have accepted the patronymic-matronymic double-barrel as a "name for use". The patronymic remains the legal name. It alone goes down from generation to generation. Philippe must still call his children Dupont.

There is in all this a practical point. Divorced parents will on the whole be pleased by the change. It offers their children the chance of keeping their mother's name, even if yoked to the father's. The choice is up to the parent winning custody. When, as often, this is the woman, she has had until now to waste much breath explaining to music teachers, school administrators and dentists, "But I'm his mother." Now she will share at least half a name with her child.



Feminists wanted to be able to take the mother's name alone. Many women, they pointed out, were having children without husbands or even live-in substitutes.

Four years ago, President Mitterrand endorsed a change to the old law, without further committing himself. Mrs Yvette Roudy, one of the few women ministers in the Socialist years, pushed hard for a reform. Then the justice minister, Mr Alain Badinter, took the question in hand. At the time, his wife was at work on a recently published best-seller, which argues that in their outlook and behaviour the two genders are becoming virtually indistinguishable. Did such casework not support a radical change in the law of names? Not to Mr Badinter, who was reluctant to dethrone the patronym.

The new law, in practice, concerns issues of parents and children more than those of men and women. French women keep the patronymic as their legal name throughout their lives. On marriage, they have the right (but not the obligation) to take their husband's name. On divorce, a woman can keep her husband's name if he agrees. The new law leaves these rules as they are.

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from international decline.

Cool and relaxed, in a short-sleeved shirt and tie, Mr Fabius spoke for almost half an hour while hardly mentioning, let alone seeking to define, the word "socialism". How to retrieve power was, for him, the main question. Socialists, he thinks, must win back centre-left Catholics, shopkeepers and professionals, farmers and retired people, many of whom voted for the party in 1981 but then went away again last March.

The party's second-in-command, Mr Jean Poperen, draws a different lesson from the March election. Just as a high rate of abstention hurt the right in 1981, so abstention, or desertion to the right-wing National Front, hurt the left this year. These lost voters are not looking for a soft centre, Mr Poperen thinks, but for something more radical to bite on. Far from reaching out to the centre, Mr Poperen thinks the Socialist party should tighten its grip on the left.

Mr Jospin, a former teacher with the air of an earnest head-boy, had to reconcile these different voices. In summing up, he proposed the creation of a National Council of the Left. This is to embrace all anti-conservative parties or groups, including dissident Communists, but not the Communist party itself. An election vehicle for Mr Mitterrand, the council is meant as a catch-all coalition, like the Federation of the Democratic and Socialist Left which Mr Mitterrand gathered round himself for his (unsuccessful) presidential campaign in 1965.

By placing their hopes in their father-figure at the Elysée, the Socialists are taking big risks. If Mr Mitterrand decides not to run, the Socialists face a brutal fight for the succession. If he runs and wins, the Socialists will still have to win a parliamentary majority on his shortening coat-tails, perhaps against Communist obstruction. And if he runs and loses? This is a possibility the party as a whole is not yet ready to face.

The Socialists left Pré-Saint-Gervais rather like Astérix's chief, who is terrified that the sky will fall on him tomorrow, but who reassures himself by saying, "Tomorrow never comes".

Portugal

Run by economists

Portugal's faction-ridden democracy seems to be settling down. At a party conference over the weekend of June 28th-29th, Mr Vitor Constancio was calmly chosen to lead the Socialist party, left leaderless by Mr Mario Soares's election as Portugal's president in February. And both parliament and the country's



Portugal marches to modernity

biggest party, the Social Democrats, have endorsed Mr Anibal Cavaco Silva, the prime minister and the Social Democrats' toughest boss to date, as the man on top of the national pile.

The Socialists' new unity is remarkable for a party that has been snapping at its own tail since losing office last October. Mr Soares had annoyed the left by having overdone the IMF-imposed austerity programme when he was prime minister. Until his unexpected election as president, the party seemed set to dump Mr Soares. In the event it dumped his preferred successor, Mr Jaime Gama; he was trounced by Mr Constancio in the leadership race, and references to the party's being "inspired by Marx" were expunged from its statutes.

Mr Constancio had the backing of the left, but he is a thoughtful middle-of-the-road economist. At the age of 42 he has already held a succession of top posts: he is a former governor of the Bank of Portugal and was one of the negotiators of Portugal's entry into the EEC. An intense, energetic man, he is likely to give his party a sharper edge than the astute, but wordy, Mr Soares. He told delegates to the congress that the party should follow the "stimulating example" of Mr Felipe Gonzalez's Socialists in Spain.

The right-of-centre Social Democratic party, which has been through nearly six years of bickering since the death of its founder, Francisco Sa Carneiro, seems to have found a worthy successor at last in another economist, the gangling prime minister, Mr Anibal Cavaco Silva. The Social Democrats' party congress last month turned into a love-in for him. Opinion polls suggest that he is Portugal's most popular prime minister of recent

years, with an approval rating of around 60%. On June 27th Mr Cavaco Silva further strengthened his position when he won a parliamentary vote of confidence in his minority government. He had demanded the motion himself because, he said, he was tired of bills being delayed in parliament.

The secret of the prime minister's success is his courage to tackle problems shirked by previous governments. He is pressing for an overhaul of the labour laws that make dismissals difficult, as well as a sharp cut in the country's bloated public sector. He has also had a little luck: the fall in oil prices is saving Portugal some \$500m a year on its import bill. This is good news for the EEC's poorest member. Portugal's GDP per person in 1984 was only around \$1,900, a long way behind the next poorest, Greece, with \$3,400.

Mr Constancio recognises that, for the moment, it will be difficult to remove Mr Cavaco Silva from office. Besides, he wants time to reorganise his party before facing the voters again. But once Mr Constancio has consolidated his grip on the Socialists, Mr Cavaco Silva can expect to face a strong challenge from as good an economist as himself.

Ireland

Till death us do part

For the Irish prime minister, Mr Garret FitzGerald, defeat in the referendum on his government's proposal to end the constitutional ban on divorce was a double disappointment. As well as aiming to give hope to thousands of Irish people

trapped in marriages that broke down many years ago, he had sought to make headway towards the reunification of Ireland by agreement.

He wanted to show Northern Ireland's Protestant majority that the republic was capable of making its laws more secular and tolerant. The proposed constitutional change could have given a badly needed boost to last winter's Hillsborough agreement between the British and Irish governments, which has aroused Protestant fury because it gives Dublin some say in northern affairs.

Although opinion polls had indicated majority backing for Mr FitzGerald's proposal, it was rejected on June 26th by an emphatic vote of nearly two to one. The government had hoped for the support of the younger people who make up much of the republic's electorate (its average age is now less than 40). But the evidence suggests that the proposal was rejected by young and old alike.

Ostensibly, Mr Charles Haughey's opposition party, Fianna Fail, held to a neutral position. In practice, its members worked hard against the coalition government in the referendum campaign, and as soon as the result was announced Mr Haughey demanded an immediate general election. An election must in any case be held before the end of next year; and Mr Haughey, who has been making one of the many comebacks that have won him the reputation of a Houdini, now looks well placed to regain power.

The overwhelmingly Catholic electorate was also following the advice of its church leaders, who bitterly opposed the introduction of civil divorce. As an alternative, the church hierarchy advocated the adoption of a more liberal law on annulments, which would be more in accord with its own practices. Mr FitzGerald and his supporters branded this advice as hypocritical, since it would amount to saying that the broken marriages had never existed. Fianna Fail, however, has indicated that changes of this kind are the only ones it could accept.

Now the government is expected to try to put through some reform of the law on annulments, wider grounds for judicial separations, and the establishment of family courts. The question is whether the present government's intentions are any longer of great significance.

The smaller coalition partner, Labour, is restive and painfully aware of the price it has paid for participation in a government that has had to adopt some tough economic policies. Three of its Dail members have resigned; in June the departure of the third deprived the coalition of its slender parliamentary majority. Mr Desmond O'Malley's six-month-old party, the Progressive Democrats, has started to

erode support for Mr FitzGerald's Fine Gael as well as for Fianna Fail. And now the referendum debacle has led a good many members of Fine Gael to question their leader's judgment.

While Mr Haughey is not hiding his pleasure at seeing the government discomfited, it is among the north's "no surrender" Protestant diehards that joy is really unconfined. For a long time to come, it now seems, there will be no prospect either of remarriages in the republic or of a remarriage of Ireland's north and south.

Poland

So this is what normality is like?

FROM A WARSAW CORRESPONDENT

It will surprise most Poles, and pretty well everybody outside Poland, to be told that the place has returned to normal. Mr Mikhail Gorbachev, the Soviet Union's leader, declared this to be the case when he travelled to the Polish communist party congress, held in Warsaw on June 29th-July 3rd, to stamp the good-house-keeping seal of approval on General Jaruzelski's leadership.

The party men in both Russia and Poland like to see the five years since the previous party congress as a period of gradual "normalisation", though not all of them care to call it that: the word has had an ugly ring since it was used to describe post-1968 Czechoslovakia. But Poland has a long way to go before it can

make normalisation mean more than a sleepy, induced calm. The calm has been bought at the price of forcing Poles out of politics and into themselves—just as happened in Czechoslovakia after the removal of Mr Dubcek by the Soviet army.

This week's congress was a celebration of those who equate silence with peace. In the run-up to it, the authorities rounded up a large part of the Solidarity underground movement, including its leader, Mr Zbigniew Bujak, and television and official press described the outlawed union as little better than a western spy-ring. The Russians, who had always thought as much, were delighted.

In return, Mr Gorbachev told the congress that the original Solidarity strikes were in part a protest against the Gierek government's shortcomings. This put the outgoing Central Committee—20% of whom were once Solidarity members—in the clear. It was a time for forgiving and, above all, forgetting. Mr Gorbachev paid General Jaruzelski glowing compliments; the general kissed the Soviet leader at least twice in public.

The Polish party was dancing on the grave of Solidarity's "counter-revolution". But the delegates did not answer the big question: how they are to rebuild the communist party into a creative force. If normalisation is to pass from quiescence to creativity, the communists have somehow to win the trust of ordinary Poles.

The party has not recovered from the loss of over 1m members between 1980 and 1982. The quality of its regional leadership is low, its relevance to the economy diminishing. There were many criticisms



Have you heard the one about the Pole and the Russian?

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at the congress about the implementation of economic reform, about flagging productivity and poor export performance. This was honest talk. Economic reform is supposed to be the constructive side to normalisation—giving Poles a stake in their country's recovery—but it is creaking, uneven.

Mr Gorbachev's vote of approval for General Jaruzelski may help to loosen the reins further. There is likely to be an amnesty for some political prisoners later this month, and church and state will start to swap concessions over another papal visit to Poland. Yet this is still not enough to bring about the second stage of normalisation: reviving a sense of initiative among Poles without reactivating a political opposition. General Jaruzelski would like to convince Poles that there is no real alternative to communist rule. That means curbing the influence of pro-Solidarity priests and branding Solidarity activists as a gang of extremists.

The trouble is that Solidarity has entered the bloodstream, which is one reason why Poland is harder to "normalise" than Czechoslovakia. The awareness of civic rights and the readiness to fight for them are acute. Yet Poles have no legal platform from which to express their grumbles—apart from the widely ignored Patriotic Front (which is little more than a front for the party), and the party itself (which many Poles blame for the whole mess). This is General Jaruzelski's unsolved, and perhaps unsolvable, problem. He has not removed Poland's frustrations. He has merely removed the ways of expressing them. That looks like a prescription for future crisis.

EEC presidency

Over to you

FROM OUR BRUSSELS CORRESPONDENT

Holding the presidency of the EEC for six months brings, as well as a lot of extra work, several tactical privileges. The main one is that you can reshuffle the papers in the Community's in-tray. Britain, which took over the presidency from Holland on July 1st, has put some of its pet subjects on the top of the pile for the attention of the Twelve between now and December. These include opening up the European market for services such as insurance and air and sea transport, and reforming the common agricultural policy. Britain has also prepared a draft strategy for business- and job-creation which is viewed with some scepticism by several other members. But final decisions will be as hard to come by as ever.

• For the rest, the British presidency

mainly entails chairing hundreds of meetings, including the London summit in December. Holding the presidency can, of course, be useful for public relations at home. For six months British people may be able to relate a bit more to EEC activities if familiar British faces seem to be running them. The Community will seem a bit less of a bunch of meddlesome foreigners.

Being president also gives a country the chance to make what might be termed the statesmanlike gesture of abandoning an entrenched national position so as to open the way for agreement. Britain may do just that in the next few weeks over the

1986 budget. In normal circumstances Mrs Thatcher, the EEC's sternest financial disciplinarian, would not find it easy to approve a supplementary budget of \$2.5 billion for this year—an overrun of 10% above the original estimates—as the European Commission is requesting.

What she would really like is to get her hands on the \$600m still owed to Britain for excess payments to Brussels in 1984, which is tied up in the budget package, and throw out the rest. However, the majority say she will have to accept the other bits of supplementary budget as well. What better occasion for showing stateswomanship?

June in the EEC

Summit

At their summit meeting in The Hague, the EEC's leaders issued a statement on South Africa on June 27th which tried to conceal the differences among the Twelve over economic sanctions. The British foreign minister, Sir Geoffrey Howe, would go to South Africa in July, and the Community would consider imposing sanctions in three months' time. But the Dutch prime minister, Mr Ruud Lubbers, who chaired the summit, inadvertently brought the differences back into the open by telling a post-summit press conference that the Twelve had committed themselves to apply sanctions if Sir Geoffrey's visit was a failure. He was quickly contradicted by Britain's Mrs Thatcher and West Germany's Mr Kohl, who said their hostility towards sanctions had not weakened. If EEC summits are rarely memorable, this one was eminently forgettable.

Trade and industry

Japanese carmakers were told by their government to limit their booming exports to the Community. Although their sales to Italy, France and Britain are closely controlled, those to the more open West German and Benelux markets have risen sharply this year.

Competition

The commission, in a preliminary ruling, decided that an Italian government-support programme for the textile industry and a job-creating scheme in France infringed EEC rules by distorting competition within the Community.

Transport

After more than 15 years of negotiations, ministers agreed on a maximum axle weight for trucks of 11.5 tonnes for continental Europe and 10.5 tonnes for Britain and Ireland. Ministers also decid-

ed to open up the road-haulage market by issuing more permits to transport firms to pick up goods anywhere in the community. At the moment up to 30% of EEC trucks on international journeys are empty on the return leg.

Fishing

Angry Spanish anchovy fishermen blockaded the French port of Hendaye because the French authorities refused them access to one of their traditional fishing zones in the Bay of Biscay. Under the terms of Spain's EEC entry treaty, control of the zone passed to France. EEC experts are trying to mediate.

Court of justice

The court ruled on two cases of worker discrimination. In the first, it found France guilty of maintaining a regulation, illegal under Community law, which reserved jobs as nurses in state-run hospitals for French nationals only. In the second case, the court ruled against the



Dutch government for refusing residence to a part-time German music teacher on the ground that he depended on social security to supplement his earned income. The judges said that part-time workers have the same right to work and live—and the same right to social security—outside their own country in the community as folk in full-time jobs.

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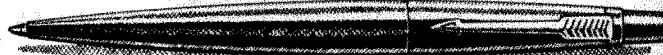
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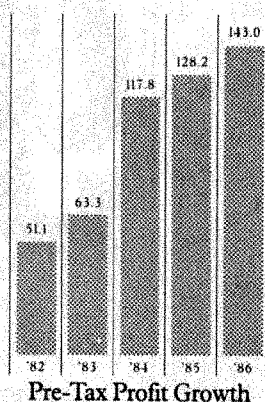
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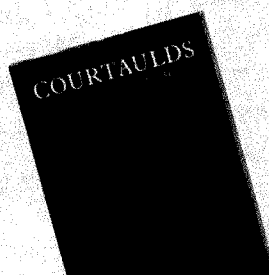
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BRITAIN

The voters don't care for balance

The electorate dislikes the prospect of a parliament in which no party would enjoy an overall majority after the next election. That is the most striking conclusion of a poll which is the first of a special series on a hung parliament conducted for *The Economist* by Market and Opinion Research International (MORI).

The poll suggests a remarkable aversion to "coalition politics". Half of all respondents regard an indecisive outcome to the election as a bad thing. Not even a clear majority of Alliance supporters are enthusiastic. Only 28% of all respondents saw virtue in the restraining influence that a balancing element might have on a minority government.

Assuming the Alliance were the smallest of the three parties in such a parliament, all respondents were almost evenly divided on which of the two big parties it should back to form a new government. Alliance supporters themselves were split three ways. A third would like their leaders to back Labour, a third Tory and a third neither party or else didn't know.

This divide carried right through to those Alliance voters professing specific Liberal or SDP sympathies. The poll confirms previous surveys placing both the Liberal and SDP components of the Alliance at political mid-point between Labour and Conservative. It presages a difficult choice for the two Alliance leaders, Mr David Steel and Dr David Owen, should they be asked to back either a Labour or a Conservative Queen's speech. Whichever decision they make will annoy a majority of their supporters.

If that is painful news for the Alliance, no more comforting for the Tories is the revelation that lots of floating voters in the centre of the spectrum are holding back from voting Tory because they do not like Mrs Thatcher's leadership: 11% of those polled would be "more likely" to vote Conservative if Mrs Thatcher were replaced as party leader, and 21% of those who were declared Alliance supporters. Those who said they were more likely to vote for a post-Thatcher Conservative party were then asked: which alter-

native leader would most appeal to them? A surprising 36% opted for Mr Michael Heseltine, a former defence secretary who resigned over the Westland affair in January.

Among marginal Tory and Labour voters, Mr Heseltine's defection from Thatcherism has clearly done him good. His star rises even further, to 43%, among the potential switchers who claim to be Alliance supporters at present. He scores best among the working-class and men, less well among women and the young. Among Alliance floaters, Mr Tebbit enjoys 15% support, with Mr Peter Walker at 13% and Sir Geoffrey Howe at 11%. Resigning from Mrs Thatcher's cabinet, especially on a patriotic platform such as Westland, is clearly good for one's political health. (In a recent Marplan poll for the *Guardian* and BBC Panorama, Mr Heseltine ran second to succeed Mrs Thatcher with 21% behind Mr Tebbit on 34%, but that was among those who voted Tory in 1983, not just floaters.)

Mr Steel's strong advance among Alliance supporters continues. Our MORI poll shows 27% of all respondents want him as the single leader of the Alliance, while 18% prefer Dr Owen and 30% are happy with the Alliance's chosen option of a joint leadership. Among Alliance voters, Mr Steel enjoys 33% support and Dr Owen 25%, but with 36% still preferring the joint leadership. A warning sign to Dr Owen is that a quarter of SDP voters would actually back Mr Steel as single leader, while only 13% of Liberals would choose to back Dr Owen.

Broadcasting

Peacock spreads its wings

When, in March last year, the home secretary set up the Peacock committee to look at the financing of the BBC, the government nursed a sneaking hope that its report would put the state-owned

1. If no party achieves an overall majority in the next general election so as to be able to carry out its policies without the support of other parties, do you think it will be a good or a bad thing for the country?

	All: %	Alliance voters: %
Good	28	47
Bad	50	39
Neither	6	5
Don't know	15	10

2. If the next general election produces a stalemate with no party able to form a government on its own, would you prefer the Liberal/SDP Alliance to allow the Labour party or the Conservative party to lead the new government?

	34	33
Conservative	37	33
Labour	13	24
Neither	15	11
Don't know		

3. If Mrs Thatcher were replaced as leader of the Conservative party before the next election, do you think you would be more likely to vote Conservative, less likely to vote Conservative, or would it make no difference to how you vote in the general election?

	11	21
More likely	7	7
Less likely	76	70
No difference	6	2
Don't know		

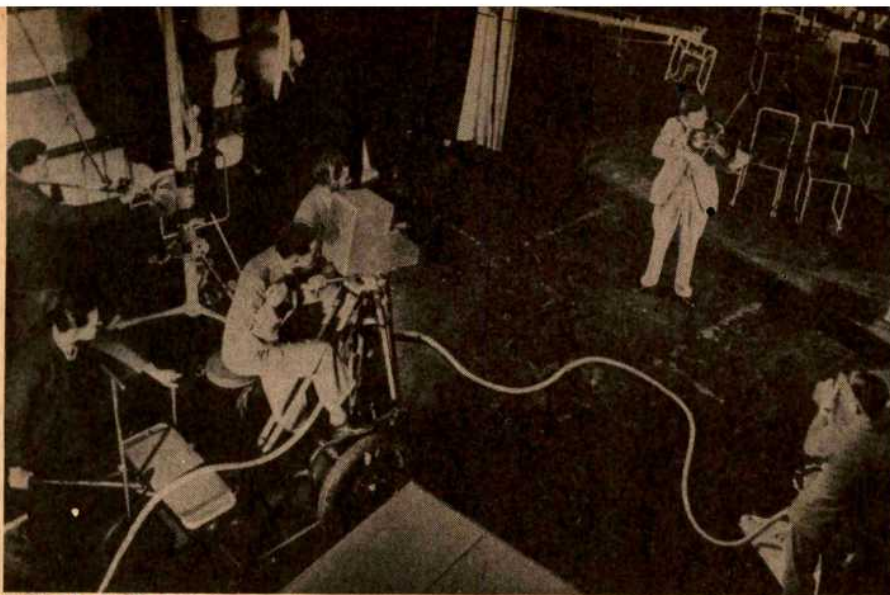
4. (Asked only of those replying "more likely" to question 3): assuming Mrs Thatcher is replaced as leader of the Conservative party, which of the politicians on this list would be most likely to make you vote for the Conservative party in the next general election?

	4	2
Kenneth Baker	36	43
Michael Heseltine	12	11
Sir Geoffrey Howe	2	1
Douglas Hurd	15	15
Norman Tebbit	12	13
Peter Walker	2	1
Other	17	14
Don't know		

5. Would you prefer the Liberal/SDP Alliance to contest the next general election with Mr David Steel as leader, Dr David Owen as leader or both as leaders, as at present?

	27	33
Steel	18	25
Owen	30	36
Both	25	6
Don't know		

Based on face-to-face interviews with a representative sample of 1,903 adults aged 18-plus in 174 constituencies in Great Britain between June 20th and 24th 1986.
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More of a fiddle today

broadcasting corporation on the spot. The BBC had just asked for a colour-television-licence fee of £65 a year, and been told to cope with £58 a year for a couple of years instead. An accountants' report had just said that the BBC could be more efficiently and cheaply managed. Why not take a serious look at the case for making Auntie (and those left-wing prigs who notoriously hide under her skirts) stoop to taking ads?

Now the Peacock committee's report has put the government on the spot instead. First, it was delivered on time—not something Whitehall expects of independent inquiries. Second, it has found against advertising on the BBC. Instead, it has suggested freezing the licence fee in real terms at £60, and gradually introducing subscription broadcasting, to allow consumers to pay for what they want to watch. All new television sets, it suggests, should be equipped, as soon as may be, with a decoder to make that possible. Third, it has wandered well beyond what the Home Office deems its brief to have been, and made all manner of embarrassing suggestions for breaking up what its chairman, Professor Alan Peacock, calls the "comfortable duopoly" of the BBC and the independent companies.

The home secretary, Mr Douglas Hurd, showed his discomfort in his reaction. He had already slid out a parliamentary written answer announcing the shelving of the promised two-year experiment in community radio. Once it dawned on ministers that these much less regulated stations might become Hyde Park Corners of the air, broadcasting all sorts of outrageous attacks on British or even (if run by ethnic communities) foreign governments, enthusiasm for freer radio dwindled. The Home Office remembered that a green (consultative) paper on the future of radio was due in the autumn. Into that handy receptacle will also go the

Peacock committee's majority recommendation to privatise BBC Radio's two popular-music channels, a sale which would raise less than half the revenue the BBC could raise if it collected all the television-licence fees that people dodge.

Much of the committee's report discusses a future when most of the present cabinet will be drawing their pensions. The government finds it hard to disagree with the view that, for instance, changing technology will eventually undermine the state's ability to regulate programming and advertising. (But the prime minister's personal horror of peak-hour sex-and-violence meant a brisk rejection of the committee's suggestion that broadcasting should be curbed only by the normal law

on matters like obscenity, defamation and sedition.) It is those recommendations of the committee designed to get people used to more competition in broadcasting which the government will find hardest to swallow.

Hardest of all is the recommendation by four committee members that ITV franchises should be put out to competitive tender, albeit with conditions fixing minimum standards. The intention is to cream off the monopoly profits of franchises more efficiently than the present ITV levy, which allows unions to grab most of the money through restrictive practices, and takes pressure off the BBC to control its costs, too. The government, instead, will postpone the next franchising round (due to start in 1988) and—perhaps—put a proposal of its own into its election manifesto. Some re-working of the existing franchising system is a more probable outcome than a commercial auction.

Rumours about the report's contents have already prompted the duopolists to take some anticipatory action. Yorkshire Television has begun a three-month experiment in using the dead hours between 1am and 6am, which the committee wants to see auctioned off with an explicit three-year ban on sale to the BBC or ITV companies. And the BBC has anticipated the committee's recommendation that independent producers should provide a rising proportion of programmes, up to an eventual 40% minimum, by at least paying lip-service to the idea of stepping up its outside purchases.

Civil service

Militant wins one in Whitehall

Britain's largest civil service union, the Civil and Public Services Association (CPSA) has elected itself a general secretary, Mr John Macreadie, who is backed by the Trotskyist Militant Tendency. Horrors, says the union's departing general secretary, Mr Alistair Graham, along with his moderate and right-wing supporters in and outside his union. Ministers may well agree.

Mr Macreadie, with 20,424 votes (out of some 58,000) was just 121 votes ahead of his main, right-wing rival. Supporters of the three defeated candidates are keen to force a re-run. A higher-than-usual number of spoilt ballot papers means an inquiry will be held, but that is unlikely to lead to another election, which would only extend the union's political uncertainty. An inquiry would be hard, too, to defend against charges of bias, since the equally chaotic voting which led to the election of a right-wing executive earlier

this year has gone unchallenged.

Surprises are nothing new to the CPSA, whose national executive is inclined to change its political complexion almost every year. But a swing back to the left under Mr Macreadie would be more significant than the previous left-wing victories under Mr Graham, whose leadership has provided the union with some stability. Besides, Mr Macreadie, like many on the left, plans to take his orders from the union's (left-wing) conference, rather than from its executive.

Concern at the CPSA result goes beyond the union itself. It almost certainly scuppers any remaining hopes of a long-term pay agreement within the civil service. It also, to Labour's concern, brings closer the risk of disruption in the civil service before the next election. The fact that the CPSA is not affiliated to the Labour party would be no help. Mr Macreadie has said he will not put the election of a Labour

government before the wishes of his members. Alarm bells are also ringing in the Trades Union Congress, which is not keen to have an admitted supporter of Militant on its general council. The CPSA executive could avoid that for the time being by keeping Mr Macreadie off the general council; two years ago, Mr Graham was voted off it by a left-wing executive.

The right wing within the CPSA has claimed throughout the election campaign that a Macreadie victory would constitute the first step in a classic Trotskyist plot to gain control of the machinery of government. This is improbable. If Mr Macreadie posed a real threat to security, ministers could refuse to negotiate with him, or to give him access to sensitive

information, but such a contentious step is unlikely to prove necessary. The most important negotiations are conducted through the Council of Civil Service Unions, in which Mr Macreadie holds no key post.

The most significant lesson to be learned from the election is the simple fact that Militant, which still refuses to call itself an organisation at all, has become awesomely efficient. By common consent, Mr Macreadie's election campaign was far better organised than those of his opponents. Militant also has a good deal of support in the union—although many of those who voted for Mr Macreadie will have been unaware of his Militant backing, which was not mentioned in his campaign literature. Mr Neil Kinnock

hopes that the expulsion of Militant leaders from his party will persuade the electorate that Labour has its far left under control. Mr Macreadie's emergence as a public figure will not help to make that notion credible.

South Africa

Labour fluffs it

The row over sanctions against South Africa seems to have shifted to the government's political advantage, at least in the short run; and, more especially, to that of Mrs Thatcher. Weak though her position may look from abroad (see page 13), she has still scored useful debating

Down on the Farm

Nine months after the riot at Broadwater Farm housing estate in north London, in which a police officer was killed, the distrust and misunderstanding which caused it are deeper than ever. That depressing fact will emerge from the two very different accounts of the riot being published this month, one by the police, the second by an independent panel of inquiry.

On July 2nd, London's Metropolitan Police published its public order review, in which it makes concessions to those, particularly among the lower ranks of the police force, who feel they are inadequately armed. The events at Broadwater Farm are recounted in minute detail, along with those in Brixton the previous month. There are few points of similarity between its account, and those given in evidence to the independent inquiry, in which the police did not participate, into the Broadwater Farm disturbances. The inquiry's report will be published on July 7th. It will pin much of the blame on policing tactics, and prescribe a democratically accountable police authority as the cure for London's policing ills.

Because it was commissioned by Haringey council, and chaired by the Labour peer Lord Gifford, the Broadwater Farm inquiry will inevitably be portrayed as left-wing nonsense. Would that it were. In fact, Haringey council itself comes in for considerable criticism, and the resentment and frustration which have emerged during the inquiry is only too representative of the views of a large section of Broadwater Farm's inhabitants.

The most significant part of the inquiry is the survey carried out by Mr Jock Young, a criminologist from Middlesex Polytechnic who cannot be accused of being in Haringey council's pocket. Mr Young's findings are chilling because they portray Broadwater Farm as unex-

ceptional, its inhabitants concerned about law and order and its problems no worse than the average inner-city estate.

It is unusual for people to think crime is falling, even when it is. In the aftermath of a riot, such a perception is even more unlikely. And yet half of those interviewed on Broadwater Farm feel that the crime rate has dropped. The incidence of crime compares well with a similar survey Mr Young has carried out in Islington; 8% of the Broadwater residents said they had been burgled during the year, compared with 11% in Islington. Only sexual assault, at 5% in Broadwater Farm and 2% in Islington, was higher on the Tottenham estate. Such findings will hearten the inhabitants of "the Farm", but it will confirm fears that a large number of apparently calm inner-city estates hide tensions just as dangerous.

Despite a genuine attempt to establish "community policing" in places like Broadwater Farm, no satisfactory way has yet been found to bridge the gulf

between the perceptions of the police and those of young blacks. They simply cannot understand each other, and know nothing of each other's lives. Two policemen patrolling Broadwater Farm this week appeared to believe that cannabis, like LSD, could make people jump out of windows. Even the simplest factual event will in good faith be related differently by the two groups.

Because of this lack of understanding, places like Broadwater Farm buzz with rumours. Before the riot, police had been saying for weeks that trouble was brewing, while young residents were becoming convinced that police wanted to stir up trouble. The riot became a self-fulfilling prophecy. The Met's public-order review quite openly refers to "unconfirmed reports" and "persistent rumours". It is appalling that police should have to depend on the grapevine. Since the riot, the links between the police and the estate's youth association, which had played a large part in improving conditions, have almost entirely broken down. As a result, any disturbances that take place this summer will be even harder to predict and control.



Searching for an understanding

Far to go

Non-white workers are not only paid less and more likely to be unemployed than white workers. They also suffer a less obvious form of job discrimination: they typically have to travel farther to find work. Thus their commuting costs are higher—and so their net pay lower—than white workers with the same skills.

Indeed, according to a study by Mr Barry McCormick published in the current *Economic Journal*, the cost of these longer journeys may account for between a quarter and a third of the difference in net earnings between white and non-white workers. Mr McCormick studied the employment patterns and journeys to work of a sample of Asians and West Indian workers in Birmingham and the West Midlands. He found that, on average, West Indian residents travelled 27% and Asians 13% farther to their workplaces than did whites in similar sorts of jobs living in the same parts of Birmingham. These figures were brought down by the inclusion of a small number of non-manual workers. Taking manuals alone, West Indians had a 35% longer journey to work, and Asians 21% longer, than whites.

These longer journeys cannot be fully accounted for by the relative concentration of non-whites in some industries (in the Birmingham sample, 78% of non-whites but only 50% of whites work in metal manufacturing, engineering and



A longer way from home

the car and car components industry).

Mr McCormick is keen to argue that the explanation does not lie in discrimination in the housing market, which confines non-whites to the run-down city centres, rather than the flourishing suburbs. But it is even harder for non-whites than for whites to live where they want to. Discrimination in housing costs blacks money, too.

points in Parliament.

This week she dominated a packed House of Commons for an hour of prime parliamentary time. Not only was her 15-minute question time focused almost entirely on South Africa, but so was the 40 minutes of debate on the European summit held at The Hague on June 26th-27th. Mrs Thatcher usually overcomes Mr Neil Kinnock in the twice-weekly gladiatorial contests held between the party leaders during prime minister's questions. Mr Kinnock helped by failing to probe the one area in which the government feels sensitive, its attitude to the need for black majority rule in South Africa.

More unusually, she was able to triumph over Mr Denis Healey, Labour's shadow foreign secretary and a far more dangerous adversary than Mr Kinnock. Casting a tempting fly, she said, "When Mr Healey was in the Labour government he wanted to sell weapons to South Africa". A furious Mr Healey rose to declare "No! Absolute nonsense!". Mrs Thatcher whisked out a quotation from the published diaries of the late Richard Crossman, a cabinet colleague of Mr Healey. In cabinet in 1967, said Crossman,

Healey . . . said we need the Simonstown base to be kept going by South Africa in our

own interest and therefore we should sell South Africa maritime arms but not arms for domestic use.

The Tory benches roared with delight, and—variably reliable though Crossman's diaries are—Mr Healey did not take up an offer from the Speaker to reply.

Opportunities for attacking the government with effective publicity are always limited, and for Labour to be devoting so much parliamentary time to South Africa is almost certainly a good thing for the Tories. British public opinion is still not demanding sanctions against South Africa, nor concerned at the prospect of some African countries leaving the Commonwealth. And time spent on South Africa is time not devoted to more sensitive issues such as unemployment.

Conservative party

Think again

Is the government running out of ideas? Some academics who think so this week announced the establishment of a new research group to contribute to Conservative thought. It is to be called the Hugh-

enden Foundation (after Disraeli's home in Buckinghamshire) and has strong undertones of Disraeli's one-nation approach.

To avoid being seen as supporters of one or other of the would-be inheritors of the party leadership, the group has chosen as its patron Lord Home, 83 years old but still bright as a button. Two weeks ago he wrote to both Mrs Thatcher and the party chairman, Mr Norman Tebbit. Mrs Thatcher has given the group her blessing. It has yet to hear from Mr Tebbit, perhaps because Central Office fears that it will syphon off cash from the sorely pressed party treasurers. Or perhaps Mr Tebbit is sensitive to a view held by members of the group: that the Conservative Research Department, which was the main engine of party policy-making in 1945-51 and 1964-70, has degenerated into a mere secretariat to Conservative MPs.

The Hughenden group is the first "parallel" Tory organisation, outside the party machinery, to be set up since 1974. That was when Sir Keith Joseph started the Centre for Policy Studies, in co-operation with Mrs Thatcher, then a mere member of the shadow cabinet, and to the fury of Mr Edward Heath, who was still Tory leader. The theoretical basis of the CPS was that of the monetarists and advocates of the social-market economy. It is now run by Lord Thomas of Swynnerton, a historian who is seen as more interested in foreign policy than home affairs, and has lost much of its influence in the past two years—a sign not so much of failure as of success.

The Hughenden group, by contrast, is more in tune with the interventionist strand of Tory thinking. The chairman of its council is Lord Carr, home secretary in the Heath cabinet and later chairman of the Pru. The full-time research director is Mr Joseph Egerton, an Oxford academic. The council includes Lord Blake, historian of the Tory party, Sir Fred Catherwood, former head of the National Economic Development Office, and Mr Christopher Tugendhat, until 1984 one of Britain's commissioners to the EEC. Chairman of the finance committee is Sir Ronald Mason, a former chief scientific adviser at the Ministry of Defence. The Sainsbury family is among the financial sponsors.

Although the group was officially unveiled only this week, it has been preparing its programme for ten months. It plans private seminars, initially covering four main areas of policy. They are employment opportunities through greater industrial efficiency; the shortage of mathematics and physics teachers at schools and universities; the balance of expenditure between nuclear and conven-

Easier said than done

Local councils' spending is high and rising. Yet half of Britain's voters pay no local taxes—the rates—at all. The government thinks all should pay something. Its plans to make them do so are full of snags

The kernel of the government's proposals is to replace household (though not business) rates with a "community charge" payable by every adult. The charge—critics call it a poll tax—would be phased in over several years, rising from an initial, uniform £50 to several hundred pounds, depending on the locality. The Scots are to be the first guinea pigs; a bill is to be introduced by January.

Virtually all Scottish councils, including all nine regional councils which do most of the spending, are hostile. That is partly because most are anti-Tory anyway; partly because the reform would also transfer power to set business rates from local hands to central government. But that is far from the whole story. Nationwide, many councillors and local officials, Conservatives among them, oppose the community charge as both expensive to collect and impractical. Their fears were explained at a recent seminar by the Chartered Institute of Public Finance and Accountancy.

Finding the charge-payer

The list of those due to pay would be separate from the electoral register (mainly to avoid the "poll tax" charge, but not entirely; not least, it would include foreign residents). It would be a "rolling" register, kept continuously up-to-date. There would be a duty to register, falling not on each individual but on the head of the household where he or she is resident. Problems:

- Who is the "head"? It is not always clear, eg in a three-generation household or a shared flat. Whitehall replies: in extremis, the council could nominate the head. But how would it find out?
- Just what does "resident" mean?
- People with two homes might try to register with whichever council charged less. Whitehall says they must register at the "main" residence, which would be a matter of fact. For most people, yes; but not for all. And, even if it were, how will local councils find out the facts? And what if two councils disagree?
- The government proposes to exempt anybody still at school. That includes some 18-year-olds; which not only drives a hole through the principle that every voter must pay but raises new problems of definition. What exactly is "at school"? When exactly does one "leave" school?

All this assumes people are willing to register and do so. Many do not, even when registering gives the right to vote: in towns, only 60-80% of electoral register forms are sent back, and spot checks

tend to show the eventual register 8-10% wrong on the day it was drawn up. So what chance has a register that gives only the right to be taxed? Next problem: how are people to be traced?

● People moving home are the biggest problem. In rural areas that is about 10% a year; an extreme urban case like Kensington, in London, finds 25%-plus, and over 40% in the Aussie-land of Earls Court. Whitehall says that movers (or their household head?) must notify their old council and the new one, as ratepayers do now. But while changes of owner-occupation are easy to trace, through solicitors' inquiries, shifts of mere residents are not.



● What about foreigners? How many will register, even if they can read English? Or Asian immigrants, some of whom genuinely cannot?

● What about the lodgers who will quietly make it worthwhile to their landlord not to register them? The son or daughter at home for a few months? The unemployed, on long-term "holiday"?

Some of the problems can be solved. Certain properties such as boarding houses will still be subject to a "collective charge" anyway, and this could include crown properties such as army married quarters, and diplomatic properties. For the rest, there will have to be more physical canvassing—some councils do it even now for the electoral register. Regular users of council services—libraries, swimming pools, social services—would reveal their presence. But proof of registration could hardly be made a condition for the use of services. To get a refund of a charge already paid from their old council, movers might be required to show they were registered with their new one (not that that would detect, or deter, the mover who explains a curious three-month gap by claiming to

have been on holiday, or working in Hamburg . . .).

Councils will need to co-operate. But the Data Protection Act will cause problems, and Whitehall says it will not make available records such as those of health or national insurance, though it might notify deaths. Nor has it any plans for an identity card.

However, Whitehall does have a short answer to all these doubts: Sweden already has locally based income tax, and somehow gets round the difficulties—without identity cards either.

Enforcements

Enforcing registration and collection will depend largely on public attitudes: if people think "everybody evades the charge", they will be tempted to do likewise. So the register must be open to inspection, enforcement vigorous and visible, say local officials.

But the temptation will be strong anyway. So Whitehall suggests a fine for people—presumably heads of household—who do not register those they should; and/or an increase in the charge—presumably on the unregistered should-be payer.

And collection? Suppose the payer does not pay? The law allowing distraint for unpaid rates will be re-enacted in appropriate form. But enforcement will not be easy: bailiffs know where a ratepayer lives, but what about the son who moves out before they turn up? Attachment of non-payers' earnings, perhaps? Yes, provided you can trace them—and that they have any to attach.

Costs

Even given widespread honesty, and vigorous enforcement, there are big practical problems. Councils (and other landlords) will not be able to include the community charge in rent demands, as they do rates, because it will vary according to the size of households. So there will be far more bills to calculate and send out, many—especially if monthly payment is allowed, as it will surely have to be—for small sums. Housing benefit will raise extra hurdles. Applications will multiply, as wives and adult offspring become liable for the community charge and eligible for benefit. One council estimates a doubling, perhaps even trebling, of applications.

Overall, another council reckons it will need to double its rates staff during the long transition while the new system is brought in, so raising collection costs from the equivalent of a 2p rate to 4p. Few councils believe—with memories of other legislation to prove their point—that central government has any notion of the extra burden it is putting on them; let alone that it will meet the cost.

Which leaves the government only the modest, but not foolish, comfort that you can prove most change impossible—until you do it.

tional forces; and, for its first seminar this week, attended by Mr Douglas Hurd, the home secretary, the timely topic of urban problems and public (no, not spending) order.

Theatre

On a world stage

Should the bosses of Britain's top subsidised theatres be allowed to make their fortunes in the West End and on Broadway? The twin pillars of the theatrical establishment—Sir Peter Hall of the National Theatre and Mr Trevor Nunn of the Royal Shakespeare Company (RSC)—who, between them, have five shows running in commercial theatres in the West End—have found themselves accused of making too much money from such deals. They are suing the *Sunday Times* for saying so.

The London theatre is the best in the world partly because it blends the subsidised and the commercial worlds. One of Mr Nunn's commercial successes is "Les Misérables"; the play was first staged at the RSC but the idea and original sponsor-

ship came from a commercial producer, Mr Cameron Mackintosh. "Les Misérables" could not have been put on by commercial or subsidised theatre alone.

That is a straightforward example. Now consider the case of "The Petition", a play by Mr Brian Clarke (who wrote "Whose Life is it Anyway?"). This is soon to open, under Sir Peter Hall's direction, at the National Theatre. It will run there for around 30 performances. Audiences willing, it will then transfer to the West End. At first, it looks like an example of the commercial theatre exploiting the subsidised one: the National will pay for all the rehearsals, for the set and for the actors; if the play flops, the National must write off those costs; if it succeeds, the commercial backers take all the West End profits, less only the royalties to the National Theatre (5% of the takings to the theatre itself, 4% to Sir Peter; 1% to the play's designer). The subsidised theatre, it seems, has become a kind of glorified pre-West-End run.

In fact, the story is less one of exploitation than of complexity. "The Petition" opened in New York, where the stars, Miss Jessica Tandy and Mr Hume Cronyn, demanded that Sir Peter Hall direct them.

When plans were laid to transfer the play to London, Sir Peter was the obvious choice of director. But he was not permitted by the terms of his contract to stage it in a commercial theatre. The commercial backers say they would have preferred to have kept control of the show from the start but gave up the profits from the first 30 performances and 5% of the box-office takings in order to get Sir Peter. At the American National Theatre, there would have been no such bargaining. Its director, Mr Peter Sellars, is allowed to do what commercial work he likes once he has satisfied the flexible requirements of his board of governors.

The grey area between Britain's commercial and subsidised theatres is getting murkier. The costs of staging a show are mounting so fast that, if subsidised companies will bear some of the costs, commercial backers leap at the chance. Thus £200,000 is a common sum for plays nowadays; musicals can cost £4m. "The Petition" will require around £100,000. The subsidised theatres, for their part, want to do deals with commercial backers because, they say, their government grants are lagging behind production costs. Who, then, is exploiting whom?

Bowled out

The battle of Waterloo may have been won on the playing fields of Eton. But England's once-national sport, cricket, is facing its own Waterloo on the playing fields of the country's state schools. Middlesex, for example, won cricket's county championship last year. Yet only eight secondary schools affiliated to Middlesex's schools cricket association now play regularly against other schools.

What is wrong? The game requires expensive equipment and expertly maintained facilities; yet schools are short both of cash and of staff willing to devote the time to run matches out of school hours. There is political pressure against sports that are competitive, mostly encourage boys, and are seen as elitist. And the abolition of grammar schools also got rid of a strong cricketing tradition: out of 23 men who played for England in 1966, they supplied ten.

Contrast that with what happens in other cricketing countries. In India, which this summer has already won the first two games of a three-match Test series against England, every spare scrap of *maidan* is thick with kids (of all ages) playing cricket. So is every beach in the West Indies. In Australia and New Zealand, schools still take the game seriously. Schools in South Africa, an outcast from Test cricket, have managed recently to produce more Test cricketers for England (Alan Lamb, Neal Radford and Chris Smith, in the current series against

India) than have Yorkshire schools (just Bill Athey). Two more of England's Test cricketers, Phil Edmonds and Derek Pringle, had their first taste of cricket at primary schools in Lusaka and Nairobi respectively, before going to English secondary schools.

The counterpoint to less cricket in state schools is (a) more colts cricket in the clubs and (b) a high percentage of professional cricketers coming from private schools. These routes have produced respectively the present England captain, Mike Gatting (John Kelly boys

high school, Cricklewood, and then Brondesbury colts) and his predecessor, David Gower (the private King's School, Canterbury). But they are being fed by fewer players taught the game at school.

How many potential Test cricketers are being lost for want of opportunity, particularly from England's ethnic minorities? Only three black cricketers have played for England in recent years: Wilf Slack (formerly of Wellesbourne secondary school in High Wycombe), Norman Cowans (Park High secondary school in Stanmore) and Roland Butcher (at school in his native West Indies until he was 14 years old). And in recent years no one of Asian parentage has made it.



Eton plays still

BUSINESS THIS WEEK

The American telecommunications giant, ITT, and France's CGE announced a £2.8 billion joint venture in Europe. The deal creates the world's second biggest maker of **telecoms equipment**.

Despite a week-long meeting, OPEC could not agree on how to prop up its cartel. **Oil prices** fell again.

The Kohl government is to sell its equity stakes in two of West Germany's largest companies: **Volkswagen** and **Veba**. The stock offerings, with a combined value of more than \$2 billion, will be West Germany's biggest ever.

A ceiling of 15% has been set on foreign stakes in the 65 **French state companies** that the government wants to privatise.

A sevenfold expansion in Europe's high-tech **Eureka** programme was agreed in London. The 19 participating countries have backed 72 industrial research projects, costing around \$2.5 billion.

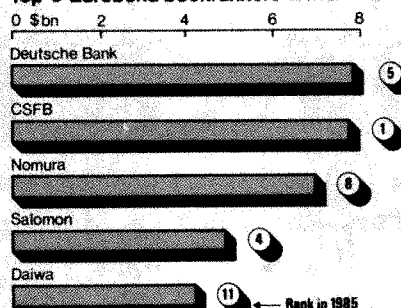
The sale of 50,000 tonnes of American **wheat** at subsidised prices to Sri Lanka made the Australian Wheat Board cross.

EEC transport ministers failed to agree on liberalisation measures designed to bring cheaper **air fares**.

Australia eliminated tax exemptions

on offshore borrowings. The surprise decision rocked the Eurodollar market in **Australian dollar bonds**.

Top 5 Eurobond bookrunners first half 1986



Source: IDD Information Services

Deutsche Bank overtook **Credit Suisse First Boston** to top the chart of book-runners in the Eurobond market in the first half of 1986. New issues amounted to record \$93.4 billion.

In the American car industry's first ever **contract-assembly** deal, American Motors is to assemble up to 150,000 cars a year for Chrysler.

A Philippine government commission seized all the shares in the **United Coconut Planters Bank** on the suspicion that the bank was owned by Eduardo Cojuangco, a crony of former President Marcos.

Rupert Murdoch sold the Chicago Sun-Times for \$145m to satisfy the Federal Communications Commission. Its rules prohibit the

ownership of newspapers and TV stations in the same market.

Hongkong agreed to limit the growth in its **textile exports** to the United States to about 1% a year until 1991.

The **Vatican** bank, the Istituto per le Opere di Religione, has sold to the Union Bank of Switzerland a 51% stake in the Lugano-based Banco di Roma per la Svizzera. The money raised will help finance the \$242m the IOR agreed to pay foreign creditors of the failed Banco Ambrosiano.

The Swiss Federal Court ruled that most of the \$70m held in Swiss bank accounts by the former Italian P-2 lodge chief **Licio Gelli** should be kept frozen.

Coca Cola plans to buy JTL Corporation, America's biggest Coke bottler, for \$1.4 billion. Coca Cola may spin off its bottling network in a separate flotation.

General Dynamics linked up with Boeing and Lockheed to seek a \$45 billion contract for an **advanced fighter jet**.

Dixons, Britain's camera-to-computer chain, failed in its £1.9 billion bid to take over **Woolworth Holdings**.

Economic and financial indicators are on pages 89-90.

Corporate scorecard

Company	Period	Net profit \$m*	% change on comp period**	Sales \$m*	% change on comp period**	Comment
Club Méditerranée	H Apr 30	11	+22	360	nil	The French holiday group boasted a reduction in losses from its low-season business and improved trading in America.
CSX	H Jun 30	217	-4	3,300	-14	America's second-biggest rail group was hit by reduced income from property sales, though operating profits improved.
Fraser and Neave	Y Mar 31	14	-12	120	+7	Singapore's soft-drinks maker, which has given up its Seven-Up franchise in favour of Coca Cola's Sprite, is suffering from an economic lull.
GEC	Y Mar 31	966†	-3	7,230	+1	Britain's biggest electrical group's first loss in 19 years will not help its attempted takeover of Plessey.
Hitachi Zosen	Y Mar 31	(304)	‡	1,760	-12	The Japanese shipbuilder was hurt by slumping demand in overseas markets.
Lufthansa	F Apr 30	(92)	(-668)**	na	na	The West German airline blamed the loss mainly on the falling dollar.
Northern Foods	Y Mar 31	91†	+19	2,040	+17	The British supplier of own-label products to retailing chains benefited from strong earnings growth in Britain.

Y = Year ended. H = Half-year ended. F = Four months ended. () = Loss. *Converted at average exchange rates. **Increased loss. † = Pre-tax profit. ‡ = Profit in previous period.

WE HAVE BEEN GRANTING CREDIT TO THE FUTURE FOR FIVE CENTURIES.



MONTE DEI PASCHI DI SIENA

1985 ACCOUNTS

	Lit. BN	Variation over 1984
Due to customers	18,577	+ 17.44%
Mortgage bonds and debentures	2,508	+ 9.71%
Net worth and allowances for possible credit losses	2,887	+ 29.22%
Total sources of funds	39,421	+ 13.58%
Loans and advances to customers	11,101	+ 18.30%
Security holdings	10,263	- 11.63%
Net income for the year	179	+193.01%



MONTE DEI PASCHI DI SIENA
MPS
BANK ESTABLISHED 1472

The MPS Banking Group is composed of Monte dei Paschi di Siena, Banca Toscana, Credito Commerciale, Credito Lombardo and Italian International Bank PLC. The total sources of funds at year end 1985 amounted to approximately Lit. 51,000 billion, the net worth was Lit. 4,535 billion.

WORLD BUSINESS

Why West Germany is selling two gems in the crown jewels

West Germany's fledgling programme of privatisation at last looks like taking wing. So far, the Bonn government has balked at selling the whole of any state company, preferring to keep a dominant stake for itself. Now Mr Gerhard Stoltenberg, the finance minister, has decided to sell all the federal government's shares in two of the country's biggest companies: Volkswagen, a motor multinational, and Veba, a big energy and chemicals group. The sale is planned for next year.

The federal government has a 20% stake in Volkswagen, which has recently celebrated a return to profits by buying SEAT of Spain. Despite Mr Stoltenberg's plans, the carmaker will still have a big governmental shareholder in the shape of the state of Lower Saxony. Volkswagen's plant at Wolfsburg lies in the east of the state, near the border with East Germany. Although they belong to the same party as Mr Stoltenberg, the Christian Democrats who run Lower Saxony appear to have no intention of selling their 20% share in Volkswagen.

Veba was the first state-owned company in which the present federal government sold part of its holding. By retaining a 25% stake, however, the centre-right government in Bonn remained the company's biggest shareholder. After the Veba sale in 1984, privatisation marked time until this summer. At the beginning of June, the government put 40% of the

shares in VIAG, an aluminium, energy and chemical group, on the market, raising DM745m (\$330m).

Two other companies are due to be part-privatised later this year: Prakla-Seismos, an energy exploration and services group, and Industrieverwaltungsgesellschaft (IVG), a property and transport company. The sale of state shares in the national airline, Lufthansa, which Mr Stoltenberg advocates, is blocked by opposition from the prime minister of Bavaria, Mr Franz Josef Strauss, whose conservative Christian Social Union is one of the three parties in the federal coalition.

The sale of Volkswagen and Veba shares, still to be approved by the cabinet, could raise DM5.5 billion (\$2.5 billion). Mr Stoltenberg also wants to sell part of the government's holdings in a mortgage bank and a credit bank. The Ministry of Finance says that the rush towards privatisation—after a delay of two years following the initial Veba sale—is simply a sign that the government is implementing policies outlined when it won the general election in 1983.

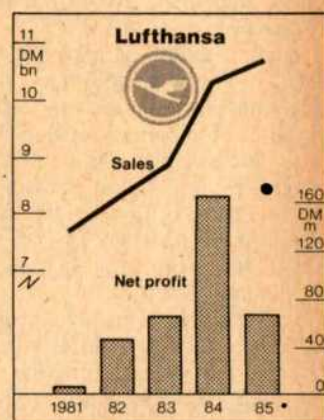
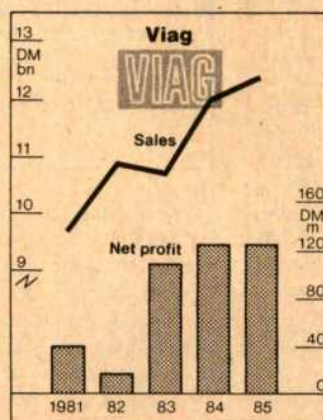
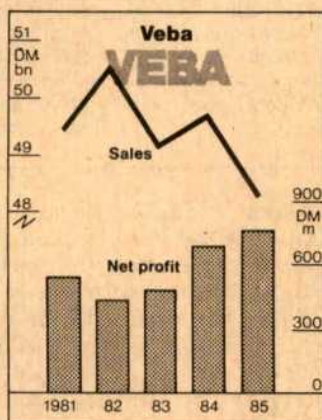
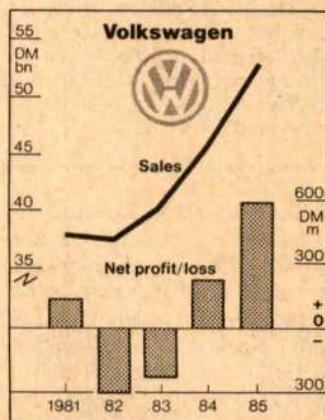
There is another reason. The finance minister wants the money that the share sales will bring. His drive to cut government borrowing is being hampered by the cost of the subsidies that the government is handing out in the run-up to the general election next January. Farmers have ben-



Stoltenberg lights a fire

efited most this summer. The shipyards are next in line. Mr Stoltenberg has announced some balancing cuts in other subsidies, but there are political limits to the savings he can make.

Tax cuts will also reduce the federal government's revenue unless domestic demand picks up more than now appears likely. A further piece of bad budget news is that, because of the strengthening of the D-mark against the dollar, profits transferred to the federal government by the Bundesbank are likely to fall by about



Sources: Exetel; company reports

Charts not on comparable scales

WORLD BUSINESS

40% next year. Accumulated earnings from interest on dollar holdings were a record-breaking DM12 billion in the last financial year.

In the draft budget for 1987 unveiled on June 27th, Mr Stoltenberg provided for a 2.9% increase in government spending—a significant increase in real terms, as prices in West Germany are virtually stable. On his reckoning, government borrowing would rise by 2.7% next year to DM24.3 billion, but then fall back to DM22.3 billion by 1990.

To keep on course, while allowing for the crosswind of political subsidies, the finance minister will need all the help he can get. Opposition Social Democrats accuse him of selling state assets to pay for vote-winning hand-outs. But if the centre-right government wins next January's federal election, Mr Stoltenberg will at last have a chance to put through full-blooded privatisation—without having to worry about buying farmers' votes. Will he and his Christian Democratic colleagues dare?

Defence contractors

Black boxes are the only game in town

LOS ANGELES

Loral Corporation's bid for Sanders Associates of Nashua, New Hampshire, a defence electronics specialist, may be just the beginning of a merger boom among defence contractors. Several big aerospace and defence companies in the United States seem ready to turn to bids to compensate for a less expansive defence budget. Sanders is the current target—but half a dozen others, including even Loral itself, could be next on the list.

Success for Loral's bid of \$50 a share for 51% of Sanders is anything but assured. Sanders is resisting the offer of close to \$1 billion. Meanwhile others—including Lockheed, Ford and Boeing—are all said to be eyeing the small New Hampshire firm.

Sanders enjoys a high rating in the defence electronics business. It was the only small firm to triumph in the recent round of bidding for work on the Pentagon's integrated-next-electronic-warfare-systems project, better known as INEWs. Sanders teamed up with America's General Electric to jostle against rivals the size of ITT, Northrop, Hughes, TRW and Westinghouse.

The multi-service INEWs project is regarded as likely to survive cuts in the defence budget by Congress. It could eventually blossom into a \$2 billion-3 billion project—an especially inviting

Gearchange for German juggernaut

BONN

How would Daimler-Benz, the Stuttgart-based maker of Mercedes cars and trucks, reorganise itself after gobbling up three big companies in a little over a year? That has been West Germany's most intriguing corporate puzzle of 1986. Its quick-fire series of acquisitions has turned the motor maker into the country's biggest industrial company—with interests ranging from aerospace to household electrical goods.

Thanks to its cash mountain, built up from export-fuelled profits, Daimler has felt no financial strain in buying controlling stakes in the AEG electricals and electronics group, the Dornier aerospace concern and engine-maker MTU. But how should Daimler organise its vastly expanded empire to get the best out of these acquisitions, while ensuring that top management under the chief executive, Mr Werner Breitschwerdt, does not lose its grip on the core vehicle business?

One answer would have been to have left AEG, Dornier and MTU to run themselves under an umbrella holding company—with the vehicle business forming the biggest of four largely autonomous units. In the case of AEG, that would have recognised the achievement of its chairman, Mr Heinz Dürr, who has pulled his company back from the brink of bankruptcy since 1982.

But a key motive behind Daimler's buying spree was the desire to create a group that would be strong on internal technology transfer—putting advanced electronics from Dornier and AEG into Daimler's vehicles. Too much independence for the parts of the enlarged Daimler empire has been seen as a threat to this aim.

Another argument against delegation seems to have been Daimler's as-yet unrevealed ideas about AEG's future. Despite Mr Dürr's success in cutting down on low-profit household goods and building up sales of the more lucrative professional equipment, AEG still has a wide product range. This contrasts sharply with Daimler's traditional habit of doing a few things well. Nobody will be surprised if Daimler urges AEG to concentrate still more on its most promising profit areas—though it will have to tread carefully. Drastic action could undermine the corporate confidence bred by AEG's recent recovery.

True to its tradition of firm management from the centre, Daimler has now decided against running itself on federal lines. Mr Dürr and the chairmen of Dornier and MTU, Mr Johann Schäffler and Mr Hans Dinger, are to join Daimler's managing board immediately. Although vehicle operations are likely to be re-jigged to separate cars from lorries more clearly, the overall authority of the board in Stuttgart will be reinforced considerably.

Mr Breitschwerdt and his colleagues



Shake up at headquarters

have run one of Europe's most successful and sharply-focused companies from their head office in Stuttgart. Now they are going to apply the same hands-on approach to what has become an engineering conglomerate. With the announcement this week of a "synergy committee" to steer technology to where it is needed in the group, Daimler is determined to make the whole of the company add up to more than the sum of its parts. It will become a business-school case study if they make it work.

prospect given the present state of America's defence business. Over the past few weeks, both the House and Senate armed services committees have put the damper on nine big defence projects, upsetting ITT, Lockheed, Martin Marietta and several other leading defence contractors.

Defence spending increased rapidly in President Reagan's first term, but the

industry is finding it hard to adjust to his second one. As well as complaining about the cancellations, defence contractors are depressed by the absence of growth in the F-16 and F-18 programmes, poor business in missiles and tracked vehicles, and a drought in shipbuilding orders. Hughes Aircraft and Rockwell have recently announced layoffs in California involving

nearly 10,000 workers. Further layoffs at more companies are certain to follow.

Most American defence contractors are predicting something between zero and 5% growth in defence spending in 1987 and 1988, compared with an annual 15-20% growth in recent years. Industry pundits believe that "black boxes" made by electronics firms like Sanders will be the last to be pruned in the budget—and may even escape unscathed.

All of which makes Sanders an attractive acquisition. So are some of the other defence electronics firms. No matter who eventually gets Sanders, an unwanted amount of attention is going to be focused on acquisition targets like Watkins-Johnson, E-Systems, Singer, Loral and a horde of smaller high-tech firms making nifty black boxes for the Pentagon.

Acquiring electronics firms should make better sense for America's big defence contractors than their recent practice of using their spare cash to buy back their own shares. General Dynamics and Litton have been among the most enthusiastic swallowers of their own tails. Many Congressmen think this proves that defence firms have more money than they know what to do with. This has caused them to look even harder at the defence budget. So, until the enthusiasm for budget cutting fades, buying black-box makers looks like the only game in town.

Travel agents

Storm clouds ahead

The travel business is heading into stormy weather. A row is brewing over the International Air Transport Association's plan to offer bigger commissions (ie, up to 15%) to "superagents" who invest heavily in automation and marketing and so take more of the travel-selling load off the airlines themselves. Purists at IATA swear they are not trying to split the association's 50,000 agency members around the world into two tiers, with a bunch of electronic innovators set above the majority of "steam-powered" ticket shops. But to travel agents worried about other, more ominous, changes threatening their livelihoods, this looks like another source of buffeting for their business.

Today, travel agents sell three out of four tickets bought by air travellers. But this could all be changing. Since airlines were deregulated in America eight years ago, they have been free to experiment with new ways of selling tickets. Some of the marketing innovations spreading to cartelised Europe from across the Atlantic include:

- The arrival of automatic ticketing machines at airports, railway stations and hotel lobbies. Run a credit card's magnetic stripe through a slot, punch in the destination, carrier and departure time, and out pops a ticket. American Express thinks ticketing machines are terrific.

- The entry of other types of seller into the travel-booking business—eg, mail order firms and supermarkets.

- Publishers of printed timetables like ABC World Airways Guide and the Official Airlines Guide are beginning to offer their publications as electronic databases available through teletext services (eg, British Telecom's Prestel). This could allow them to become air-ticket retailers, too.

- Software companies plan to market programs that permit personal computer users to issue their own tickets. Pundits expect agreement to be reached within a year or two on the kind of authorisation codes needed to turn a personal computer with a \$100 program into a full reservation and ticketing system that will work in the office or at home.

- The most disturbing—and imminent—trend of all, however, for European travel agents is the way several companies with large corporate travel accounts are threatening to become ticket-writing agencies themselves—clawing back the commission that would normally go to the travel trade.

Unlike America, where airlines now have to make their reservation systems available to anybody (corporate or otherwise), travel departments in European companies have had difficulty in getting their hands on to the computerised booking and ticketing systems used by travel agents. That could all change now American Airlines, for one, is to offer its Sabre terminals to anybody—in a corporate travel department as well as in a travel agency—who wants to join its reservation system.

For corporate travel departments unable to pay the \$1,000 a month or so to rent a fully-fledged reservation system, cheaper versions are becoming available. Travicom—the on-line booking service used by travel agents in Britain to tap the reservation systems of some 44 airlines around the world—is now offering its electronic database through British Telecom's Prestel service. A Prestel adaptor that turns a television set into a terminal can be bought for a few hundred dollars. Meanwhile, Pan Am has started offering Panther, its Prestel-based reservation system, to anybody in Britain who happens to be a member of the Institute of Travel Managers.

Though they could never manage without travel agencies, the airlines have become worried about being so depen-



A plane? A bird? No, superagent

dent on them. Most see IATA's idea of a tier of superagents—with bigger commissions and the added selling bonus of being able, like an airline, to offer passengers a guaranteed seat on an IATA aircraft—as a way of broadening their sales base.

At the back of the airlines' minds there is also the hope that, by being able to do special deals, they may be able to start encouraging brand loyalty among agencies. That is something the trade association IATA would find distressing—and something the smaller outfits among the travel agents are going to squeal loudly about when they all meet next week.

ITT

Phone company without a line

NEW YORK

Formerly known as International Telephone & Telegraph, ITT is pulling out of international telecommunications. ITT announced this week that it is selling the former heart of its business to France's state-owned Compagnie Générale d'Electricité (CGE), for about \$1.8 billion. ITT executives had informal meetings with French government officials visiting New York to celebrate the 100th birthday of France's gift to the Manhattan skyline, the Statue of Liberty. They clinched the deal on July 2nd, but still need to get approval from the French government.

Since he succeeded conglomerate-builder Mr Harold Geneen as ITT's chief executive, Mr Rand Araskog has regular-

WORLD BUSINESS

ly explained that his plan was to take the firm back to its roots in telecommunications. To help do that, Mr Araskog sold 95 ITT subsidiaries for a total of around \$4 billion. Much of the proceeds was spent developing the telecommunications business. But net profits dropped from \$667m in 1981 to \$294m in 1985. With ITT's new range of digital switches selling poorly, it became clear that telecoms, too, was expendable.

Under the terms of the deal negotiated with the French, CGE would pay \$1.8 billion for 70% of ITT's European telecoms assets. And CGE takes over \$1 billion of the debt ITT has incurred for those subsidiaries—so reducing ITT's total debt to around \$2.5 billion. ITT, in turn, retains 30% of the business. Mr Araskog is to be named chairman of the joint venture's supervisory board. From that exalted position he would provide "strategic direction", and ITT would reap a share of the profits—if there were any.

It may be tricky to make the new joint venture pay. Infighting among ITT's semi-autonomous European divisions hampered development work on the company's flagship product: the System 12 digital switch. ITT is still having problems delivering the switch on time, and a \$200m effort to adapt the switch for the American market was abandoned in February 1986.

Ignoring pleas to put Europeans experienced with System 12 on to the job of adapting it for America, ITT turned its back on America's two-fifths of the world telecoms equipment market. System 12 will now sink or swim in Europe. It faces stiff competition. A dozen rival systems are vying for the European switching market. ITT's development costs for System 12, more than \$1 billion since 1980, are at the high end of its competitors' spending range. Outside West Germany and Italy, deliveries and profits have not come up to scratch.

With telecoms on the auction block, Mr

Araskog's new plan for ITT will focus largely on his firms' American assets. In 1985, this collection of insurance, hotel, and financial firms accounted for about one third of ITT's \$901m operating profit. Another string to Mr Araskog's bow could be ITT's chip-making operations. Although suffering with the rest of the

semiconductor industry from the downturn in chip markets, ITT has gained a technological lead in chips that improve television pictures while making sets cheaper to build. But with cash in the bank from the telecoms sale, Mr Araskog could also indulge in another traditional ITT activity: shopping.

Trade wars

America turns up the heat on Airbus

GENEVA



TransAtlantic trade temperatures could soar again this summer—this time about the manufacture of civil aircraft. A second round of informal talks in Geneva between American and European trade officials has failed to assuage Washington's claims that governments in Europe are cheating on state support for Airbus Industrie, the four-nation jet airliner consortium.

Mr Bruce Wilson, America's assistant trade representative, told reporters before flying back to Washington that some progress had been made "but we have the potential for a trade dispute". American officials allege that France, West Germany and Britain (Spain, with a less than 5% stake, has not been involved in the talks) are breaching the General Agreement on Tariffs and Trade's seven-year-old code on civil aircraft. That code expressly prohibits trade-distorting subsidies and unfair inducements for potential purchasers. Boeing, the Seattle-based airframe manufacturer, has lobbied hard for an American showdown with Europe on Airbus.

On inducements, all concerned crossed their hearts last week and promised not to

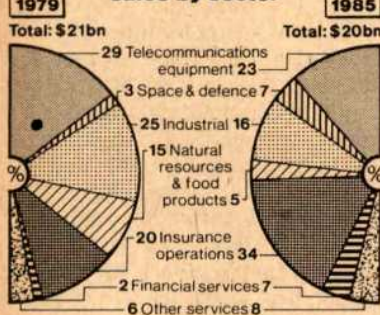
dangle before customers such tempting attractions as airport landing rights, sales of military equipment, financial aid and favourable votes in key international institutions (eg, the World Bank)—all practices outlawed by GATT. Officials agreed to set up an "early warning" consultation system over complaints about bribes.

But on the key issue of subsidies, the Geneva talks ended in stalemate. America says state aid for Airbus has been worth at least double the \$4 billion in direct subsidies going through European government accounts over the past 15 years. This, it says, amounts to very unfair competition. The Europeans retort that Airbus cash, which takes the form of repayable loans, is wholly in line with GATT rules. Far from distorting trade, the Europeans argue, their system ensures healthy rivalry for the giant American aircraft manufacturers, Boeing and McDonnell Douglas, which have 80% of the world market between them. The Airbus governments also point to the indirect support enjoyed by the American industry from multi-billion dollar military and space research and development con-

Paris on the line

ITT

sales by sector



Source: Company reports

Beyond factory robots

Computers are becoming so powerful, and so cheap, that they are now reshaping the factory. Allied to computer-aided design, robotic tools, sensors and powerful telecommunications techniques, they have started forging the factory of the future in America. Here are seven ways in which they are already changing traditional habits in manufacturing

American carmakers who at first gruffly dismissed Japanese competitors later found themselves referring to Mr Taiichi Ohno, Toyota's vice-president and manufacturing whiz, as "Mr Oh! No!". By applying the latest production technology, Mr Ohno refined manufacturing methods so as to slash waste, make only what was needed and change presses in nine minutes—where Detroit took six hours.

And that was in the heyday in the late 1970s of old-fangled automation. It is much more perilous to ignore manufacturing technology today. Then, dedicated plants with automated production lines were designed to make the best use of the flow of material. In future, the new-fangled high-tech production processes—known ubiquitously in industry as CIM, short for computer-integrated manufacturing—will make plants instantly responsive to the requirements of the enterprise of which they form part.

Investment in CIM equipment, which was \$10 billion in 1981, is expected to climb to close to \$60 billion by 1990 (see right hand chart). Behind this soaring growth in high-tech automation lies a revolution in computer technology.

Using computers instead of people costs 8,000 times less today than in 1950, according to a study prepared by Harvard Business School*. Electronic transactions can be made 80m times faster now than then. Errors occur in modern computers at a rate of one in 3m, compared with one in 30 when humans do similar calculations. It is this revolution in computing power, say the Harvard researchers, that is hastening the arrival of better manufacturing processes, new products, higher quality and improved services. Product life cycles, down typically to five or six years (half what they were a decade ago), will shrink further.

A number of companies are keen to discover how technology will change their organisations and the people who work within them. At the Sloan School of Management, ten large corporations (including Digital Equipment, General Motors and British Petroleum) have put up \$5m to examine how technology might affect managers in the 1990s. The companies open their doors to Sloan researchers and work with them. They also appoint managers to attend workshops at Sloan.

Workshops for the workplace

Such workshops enable professors and managers from different companies to discuss with each other how they see management working in the 1990s. At a recent study group, bitter rivals from Xerox and Kodak were in the same room talking about common problems. Although barely a year old, the workshops† are beginning to point to some of the new directions in which businesses adopting CIM and other computer-aided management methods will find themselves heading:

- **Disbursement** of production towards ever smaller manufacturing units is progressing remorselessly.
- **Labour costs** are becoming less and less important to companies because of modern automation. Implication: multinationals could retreat from low-wage countries.
- **Centralised engineering**, with the designers being brought back to headquarters, seems to be characteristic of high-tech manufacturing. Product blueprints, drawn using computer-aided design at head office, are likely to be transmitted via long-distance telephone lines to computer-aided manufacturing plants in the company's principal markets.
- **Manufacturing flexibility** rises dra-

matically as a result of applying the new techniques to machine tools. This permits a wider variety of products to be produced without raising costs. It also allows CIM plants to break even at 30-35% of capacity (compared with 65-70% for conventional plants).

● **Plug-in service** comes as a bonus. Faults in products made by computer-aided design and CIM techniques can usually be diagnosed by plugging them into a computer. General Motors is planning to install computerised diagnostics in repair centres across America.

● **Economies of scale** eroded by CIM in manufacturing will have to be found elsewhere. Research and development, sales and marketing are thought to be likely candidates for concentration.

● **Industrial boutiques** run by small independent operators with all the latest computer-aided design and CIM techniques are emerging as contractors to mainstream corporations, many of which might eventually be forced to offload their own manufacturing units and buy in tailor-made products.

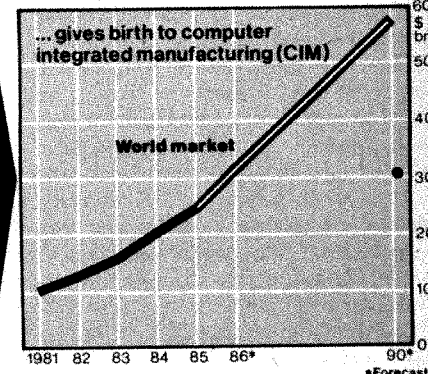
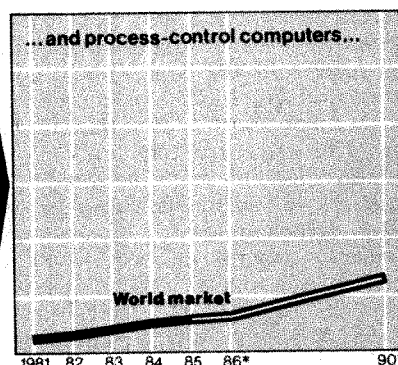
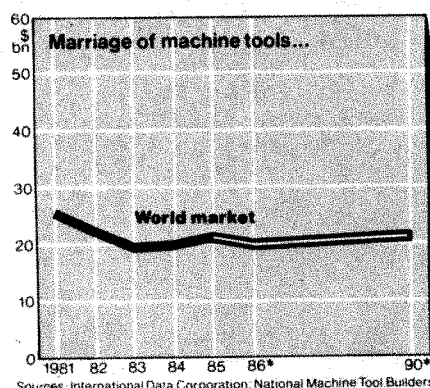
Slow to change

Despite the obvious benefits, managers are still slow to accept computerised manufacturing systems, says Mr James Cash of Harvard Business School. Their worries remain the same as they were eight years ago—cost, potential misuse, reliability, complicated maintenance and security. They also fear (needlessly) that computers might stop their employees thinking.

Things go wrong, says Mr Cash, when managers abdicate control to jargon-spouting "information systems specialists". Managers at the New York publishing company, McGraw-Hill, learned this lesson and wrested control of the corporate computers back from the specialists.

"How information gives you competitive advantage." By M. E. Porter and V. E. Millar in "Harvard Business Review", July-August 1985.

†"Management in the 1990s Research Programme." Organisational Reform Workshop, January 1986, Sloan School of Management.



Truce, not peace, in the farm war

WASHINGTON, DC

There will be no war of Spanish accession—or, at least, not this year. After an intensive round of negotiations, officials of the Reagan administration and the European common market have agreed to keep negotiating within GATT on their differences over enlargement of the EEC. America's restrictions on European agricultural produce, due to take effect on July 1st, have been cancelled; so have the community's counter-measures.

The new agreement provides for continuing imports from America to Spain of farm products, notably maize and sorghum. The accession of Spain to the EEC—and its acceptance of the principles of the common agricultural policy—would eventually, according to the administration, deprive American farmers of a \$600m annual market. The EEC has now agreed to monitor imports of farm products into Spain. Should these fall below an average of 234,000 tonnes a month—roughly their level before Span-

ish entry—they will permit imports into the community, at a reduced tariff, of enough American produce to make up the shortfall.

This is more a truce than a permanent peace treaty. France has not yet approved the deal. As higher EEC prices boost Spanish farm output, French farmers stand to lose export sales of fruit and vegetables to Spain. They had hoped that higher cereal exports would offset this. If America keeps its share of Spain's maize market, there will be little room to expand French shipments. For their part, the Americans are still bothered by the Europeans' claim that a customs union can grant it exceptions from certain GATT rules.

American farm trade moved into deficit last month for the first time in over 20 years. If, by December, the weaker dollar has not started to move trade in favour of American produce, then expect American negotiators to get tough.

tracts, and their generous tax treatment.

The American administration decided last autumn to put Europe's support for Airbus on the list of unfair trade practices to be investigated by President Reagan's special task force. A main reason is Boeing's concern that Airbus, now seeking \$2.5 billion launch aid to enlarge its range with the A-330 and A-340 long-haul airliners, has become a more dangerous competitor. The top trade official in Washington, Mr Clayton Yeutter, will tell the White House before the end of the summer what it might do about this.

Essentially, the aim is to take the issue up formally in GATT—to negotiate "at a higher political level" with individual governments. But European officials are confident that GATT would laugh the American complaints out of court. Boeing, with over 1,000 airliners in service with European airlines against a meagre 56 Airbuses operating in the United States, is making the highest profits in its history and has pulled off some spectacular sales deals this year.

Officials in Geneva are a lot more worried by the prospect of American political arm-twisting, accompanied possibly by threats of curbs on European aircraft exports under Section 301 of the American trade act on unfair practices. France, West Germany and Britain can be expected to fight tooth and claw to preserve an all-too rare example of successful European collaboration, but European threats of retaliation—eg, blocking Boeing's sales to national flag carriers—probably will not work. First, there is no alternative to the Boeing 747s

which the airlines need for their busy intercontinental routes; and, second, European aero-engine and component makers get healthy revenues from the parts they supply to Boeing.

Russian trade

Mother Russia's \$9 billion headache

For Russia's trade with the West, cheaper oil is a bigger disaster than Chernobyl. Once again, it seems, the Soviet Union is paying the price of being a superpower with a one-product export economy—fuel.

In the 1980s, more than 60% of Russia's hard-currency earnings from trade with the industrial West and Japan has come from oil; another 15% came from gas. Until recently, the reliance on oil seemed fine: OPEC's price rises in the 1970s meant that Russia could afford to buy more from the West without much extra effort. But Russia's planners can no longer count on OPEC. The energy tap has turned into the energy trap.

Even before this year's slump in prices, problems with oil production had led to a sharp decline in Soviet hard-currency earnings. Exports to OECD countries dropped to about \$22 billion last year from \$26 billion in 1984. The fall in the world's oil price is likely to do even more damage this year.

The troubles start at home. The world's biggest oil exporter is no longer flush with

oil to sell. Planners had been expecting Soviet oil output to grow, even though this meant extracting more and more of the stuff from inhospitable areas of Siberia (the more accessible fields in the European part of the country are drying up). Instead, production fell from a peak of 616m tonnes in 1983 to 612m tonnes in 1984 and 595m tonnes last year. Result: total Soviet oil exports dropped by about 25m tonnes last year against 1984, and those to OECD countries were down by at least 10m tonnes.

Russia's oilmen have been doing better this year. Output in the first five months was 2% higher than in the same (disastrous) period in 1985. But even if they reach this year's production target of 616m tonnes—which they probably won't—the days when oil could easily be diverted to the West for extra dollars are over. Gas is only a partial substitute. Production has risen fast, reaching 643 billion cubic metres in 1985. But gas is a less flexible commodity than oil; and western customers want to buy less of it than the Russians would like to sell.

The weakening of the dollar has made things worse. Russia gets paid in dollars for most of the oil it sells to the West, but its imports from the West come mainly from Europe—and it has to pay for them in stronger European currencies. Over the past 12 months, the dollar has lost a quarter of its value against the basket of European currencies, the ecu.

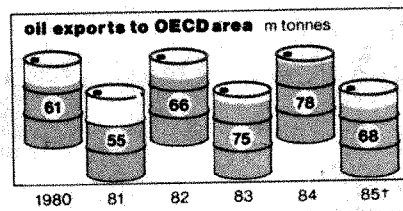
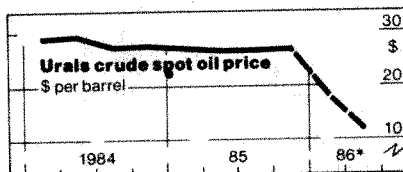
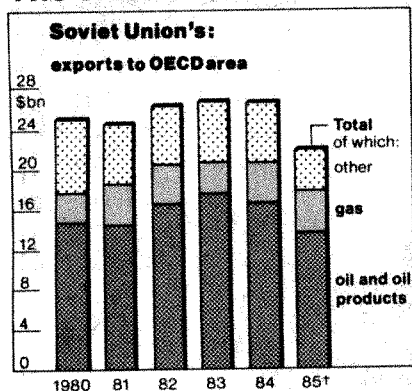
But by far the biggest shock for Soviet planners has been the fall in the price of oil. After remaining steady last year, the spot-market price for Soviet crude has collapsed (see chart on next page). Since December, it has fallen by more than half, to \$12.60 a barrel.

According to Mr Jochen Bethkenhagen of West Germany's Institute for Economic Research, a fall of \$1 a barrel in the

Matrioshka over a barrel



The crash of comrade oil



Source: DIW

* Estimate † Provisional

price of oil means a loss of about \$500m a year in Soviet hard-currency earnings, assuming that Russia continues to sell the same quantity of oil to the West as it did in 1985. So the loss of oil revenue this year may amount to some \$6 billion-7 billion. Add to that the loss of buying-power caused by the weaker dollar (likely to be about \$1½ billion this year, on the German institute's reckoning) and the loss of gas revenue of perhaps a further \$1 billion (because the price of Soviet gas is linked to that of oil), and Russia could find itself worse off by as much as \$9 billion in its trade with the West this year compared with 1985.

So Russia will almost certainly have to cut hard-currency imports. The foreign trade minister, Mr Boris Aristov, has said that these imports may have to be reduced by as much as a third—a painful blow to Mr Mikhail Gorbachev's plans to modernise the Soviet economy.

Two things are likely to follow. First, Russia will want to step up trade with Eastern Europe. Its terms of trade with its Comecon partners are beginning to look more attractive, since the soft-currency price the East Europeans pay for most of their Soviet oil is based on a five-year moving average of world prices and so does not yet reflect the recent falls. But none of this will be welcome to hard-pressed East Europeans.

Mr Gorbachev may yet turn the second consequence to his advantage: Russia will at last have to make a serious effort to increase its non-oil exports to the West—and, in particular, its exports of manufactured goods. So far, with the exception of those cheap-end-of-the-market Ladas and watches, Soviet industry's attempts to compete with the West have been feeble, to say the least.

Against Mr Gorbachev is the disheartening experience of the East Europeans, whose manufacturing industries have long been trying, and failing, to increase their market shares in the West. And the fact that the Soviet effort will start at a

time when imports of western technology will be limited by a new hard-currency constraint, as well as the old problem of the West's strategic trade controls. In Mr Gorbachev's favour is raw pressure—and the knowledge that he has no other choice if he is to turn his country into an economic as well as a military superpower.

Bare cupboard

Can the Russians fill the export gap with the West left by fallen oil prices, disappointing oil output and a softened dollar?

They will certainly try. First they will switch as much of their exports as they can from crude oil to refined products such as diesel and jet fuel. Limited refining capacity will be a problem here.

The Russians might also try boosting their hard-currency exports to developing countries, where they usually sell about half as much as they do to the OECD area.

This also looks unpromising—not least because some of the Soviet Union's best third-world customers are also oil exporters with less money to spend because of falling prices. According to PlanEcon, a Washington-based research group, Russian exports to developing countries fell by 14% last year, with arms exports down by about 25%.

Might Russia borrow more, or sell more gold? It has already been doing quite a bit of both. Mr Jan Vanous of PlanEcon reckons that Soviet gold sales doubled to some \$2 billion last year and have been running at an annual rate of about \$2½ billion-3 billion this year, while net Soviet borrowing from commercial banks increased by \$4.3 billion in 1985. But too much selling of gold would depress the metal's price and the Russians are customarily cautious borrowers.

Unless political relations with the West become suddenly brighter, they will not want to borrow much more.

Computer software

From Detroit to Wall Street

Hands still dirty with the work of automating General Motors's car plants, systems-builder EDS is turning its attention to the white-collar world of stockbroking. This week it bought software for automating securities trading from Morgan Stanley, a New York investment bank.

As deregulation and international competition cut into financial firms' margins, they have become even more dependent on productivity-boosting technology than manufacturers struggling to fight back against the Japanese. Morgan Stanley's TAPS system automates the paperwork of securities trading. It also provides the information managers need to get the most out of their money: like calculating how much cash the firm must keep on call to cover its margin requirements, and how much can be invested in the money markets.

Certainly, EDS looks well placed to bring TAPS to market. It has already developed a range of banking systems which could be combined with TAPS to automate a financial supermarket. Should its clients lack the hardware to take advantage of these programs, EDS can also offer clients use of its own set-up of computers and communications equipment.

For all its advantages, EDS has two big jobs to do to win over the men in the markets. The first is to make TAPS more international. Although the parts of the system which manage trading in bonds and other fixed-income securities could easily be transplanted overseas, the equities-trading software now works only for the American market. But most stockbrokers in the United States have already automated equities trading. Most of EDS's brightest sales prospects lie overseas—particularly in London's soon-to-be-deregulated financial market. Programmers are already adapting the software, but the job could take some time.

To automate financial trading profitably, EDS is also changing the way it does business. The firm usually insists on taking complete charge of customers' data processing. It even hires away a client's data processing staff. Financial institutions will be offered the alternative of looser ties with EDS. Automation lies too close to the heart of their businesses to hand over to another firm. Even Morgan Stanley did not let EDS get close to its most important computer systems: the programs that scan the markets for profitable trading opportunities.

RCA Corporation

has been acquired by

General Electric Company

*The undersigned acted as financial advisor to
RCA Corporation.*

LAZARD FRÈRES & CO.

June 12, 1986

FINANCE

Capital ideas for southern Europeans

France, Italy and Spain are realising that their financial-market calves will never be world-money bulls unless they can bury the old warning: "Don't put money in France (or Italy, or Spain); you cannot get it out." How far and fast to freer capital movements are these three countries now ready to go?

France and Italy have long sinned against the EEC's free-movement-of-capital rules. Newcomer Spain seemed a potential big offender. All three have hitherto felt they had to cover themselves against capital-flight to the stronger-currency countries of the Deutschmark zone.

Attitudes are changing. Converging inflation rates and the success of the European monetary system make freer currency rules look less risky. The bourses of Paris, Milan and Madrid are eager to be promoted. Outside pressure for change comes from West Germany and from the European Commission.

Finance-Ministry officials in France say that "80-90% of our controls have now gone." There are now few controls against trade and tourism. The minister, Mr Edouard Balladur, says that the remaining 10-20%—chiefly financial controls—will go by the end of this year. The new conservative government is just speeding up the liberalisation that its Socialist predecessor started in 1983.

Direct investment in and out of France is virtually deregulated. Portfolio investment abroad has become easier. On May 15th, Mr Balladur announced the elimination of the *dévises-titres* system. This obliged French buyers of foreign investments to purchase currency at a premium. The most irksome remaining control is a rule forbidding French residents from lending to foreigners for financial transactions. This stops French residents lending francs in Eurocurrency markets, where demand to sell soon-to-be-cheaper francs forward soars whenever a franc devaluation looms.

Will Mr Balladur really drop this last but often ineffective, defence against runs on the franc? If he does, French Euro-

bond and French domestic bond rates should equalise, leaving the French treasury less able to rig the market for French-government paper. Interest rates, not rationing, will at last have to become the main tool of French monetary policy. But if inflation picks up this autumn, or the franc takes a sickly turn against the Deutschmark, it is always possible that Mr Balladur might change his mind.

Italy's lower house approved a new law in June to relax Italy's currency restrictions. At the moment, every type of foreign-exchange deal is forbidden unless expressly authorised. The new bill turns this idea on its head. Once in force, after Senate approval, the law would oblige Italy's monetary authorities to spell out what they mean to disallow. The bill would also raise from 5m lire (\$3,350) to 100m lire the amount of currency residents have to smuggle out of Italy before facing the risk of jail.

Exchange restrictions on businesses are being eased both by ministerial decree and by the Bank of Italy. Italian investment funds can invest up to 10% of their assets abroad. Buyers of foreign non-industrial investments have to make a 25% deposit with the Bank of Italy. This was lowered in October 1985, from 50%. Exporters no longer have to finance export credits in foreign exchange.

Italy is still far from satisfying the EEC. Even at the Bank of Italy, people think it will be years before Italians can have foreign bank accounts or invest freely abroad. Yet most of the old reasons for rigging Italy's currency markets are gone, and an influential lobby wants controls lifted. Industrialists complain about the details of the legislation: they want currency offences decriminalised and they fear that new regulations will be piled on the old. But they welcome the spirit of the new bill. Perhaps Italy will surprise itself, and unshackle its exchanges more quickly than the pessimists think.

Before the general election on June 22nd, Spain's economic authorities were considering relaxing exchange controls on the purchase of foreign bonds and shares



Freer bourse, more bargaining

by Spaniards. But liberalisation was put off because the Ministry of Finance and the Bank of Spain, which backed it, and the Ministry of Trade, which opposed it, could not agree.

The terms of Spain's EEC entry agreement oblige Spain to liberalise capital movements by the end of 1988. Spanish banks, which still have too many branches and too many clerks who treat customers as supplicants, are no keener on accepting more competitors than is the next bank. They particularly hate the idea of foreigners offering mortgages to Spaniards, as they will in theory be able to do under EEC rules. But Spanish industry stands to benefit as increased competition cuts the costs, margins and interest rates of their bankers. British merchant banks have already made soundings about managing Spanish portfolio investments abroad before the end of this year.

Individual Spaniards are allowed to buy bonds in foreign currencies only when these are issued by Spanish companies and institutions (for example, King-

FINANCE

dom of Spain bonds in dollars or yen) or are issued by international organisations to which Spain belongs (World Bank bonds in dollars or yen). Banks, companies and insurance companies can buy limited amounts of other foreign assets.

A main argument for relaxing controls is similar to that in France and Italy: there is no longer much cause to fear the sort of capital flight that prompted a stiffening of Spanish controls in 1979. Spain had a \$3 billion surplus in the current account of its balance of payments last year. This is expected to rise to \$4 billion-5 billion in 1986, thanks to cheaper oil imports. There is even some fear that the peseta might be pushed up undesirably. Foreign-

ers accounted for 14% of the investment on Madrid's bourse in January-May. In a thin market, this fuels price rises. Spain's authorities hope investment outlets abroad will cool this overheating.

British clearing banks

Kangaroo punch

Westpac—the outwardly-mobile Australian bank that bought Johnson Matthey Bankers' bullion operations—seems to have upstaged big British clearers trying to build up their securities operations around the world before London's "Big

Bang" deregulation in October. Westpac is expected to announce that it will buy William E. Pollock, an American primary dealer in government bonds known for its direct and profitable links with retail customers, for over \$100m. New York sources say that Pollock had also been talking recently to a West German bank, and at least one British clearer.

Britain's Midland has a small primary dealer already, rescued from the debris of its former subsidiary Crocker National. Lloyds has applied for primary-dealer status itself but has no plans at the moment to buy. National Westminster says it will stick to secondary trading for now. Barclays is keen on the market

Japanese capital changes pace

After a brief respite for Japanese industry, the yen has again begun to climb against the dollar. Its rise has been restrained recently by a change in the shape of Japan's investments in foreign bonds. If Japan's Finance Ministry has its way, capital outflows will continue to slow the yen's rise

Manipulating capital flows is the way in which the Japanese most like to influence the value of the yen. Their ability to do so has in recent years been much reduced by four things: the end of Japan's exchange controls in 1980; increased speculation; the weakening of bureaucratic guidance over inward and outward investment; and the swamping of trade-related foreign-exchange transactions by flows directed at portfolio investment. Nonetheless, the Finance Ministry still retains some power to move the currency markets. And it is again trying to wield it.

A big contributor to the weakness of the yen against the dollar in 1983-85 was the large and growing outflow of capital from Japan. Japanese monthly net purchases of foreign bonds reached \$8.5 billion in July 1985. Soon afterwards the Finance Ministry called in Japanese financial bigwigs to ask them to restrain their foreign investments, and it very publicly shelved plans to ease remaining controls on outflows. This was seen as a useful adjunct to the five-country agreement in New York in September that began the dollar's sharp decline.

Statistics on Japanese overseas investment suggest that investors ignored the bureaucrats' request. Net purchases of foreign bonds by Japanese residents continued to run at \$5 billion-8 billion a month during the yen's 48% rise against the dollar. About 60% of the bonds were still in America and another 20% in dollar bonds in Europe.

But the figures conceal a significant change in Japanese investment. Whereas in 1984 almost all was financed in yen (and so involved an exchange deal) and only 15% was hedged against currency risk, by early 1986 at least 60% was being

financed from dollar debt or cash flow and much of the rest was hedged. Japanese investors traded bonds more actively than ever before.

In recent weeks, that has begun to swing back. Japanese net purchases of foreign bonds were \$11 billion in April (a record) and \$8.4 billion in May. Net purchases of foreign equities were a record in May but still tiny—\$590m—compared with bonds. Japanese brokers think more than 60% of foreign investment in these months was being financed in yen. Why the switch back to yen? First, because many investors think the yen will not rise much further against the dollar, so the exchange risk of foreign investment is small while dollar bonds bought with yen look cheap. Second, because the pause in America's bond market has reduced the chances of capi-

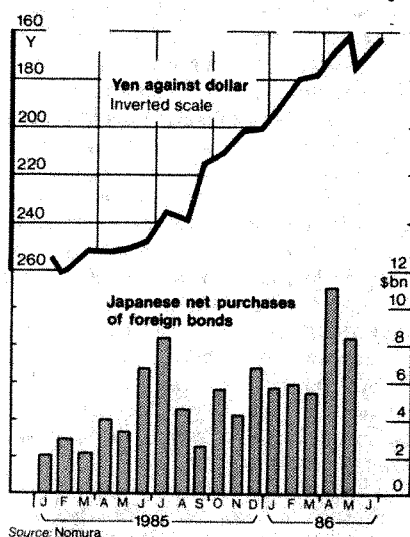
tal gains that made dollar-financed investment profitable.

Many currency dealers in Tokyo think this reappraisal of overseas investment helped steady the yen at between Y165 and Y170 to the dollar in June. The Finance Ministry is trying further to steady it by releasing controls on financial institutions' investment overseas. In March, it allowed life insurance firms to invest 25% of their assets overseas instead of 10% as before, although it redefined overseas to include foreign issues by Japanese firms. With those included, most life insurers already had about 15-18% of their assets overseas.

Its latest move has been to tell trust banks that, probably from August 1st, they can invest more than the present limit of 1% of the assets of loan trusts, a type of deposit account, in foreign securities. No new limit has been mentioned, but if foreign investment rose to, say, 3% that would release Y660 billion to buy foreign bonds and equities.

Next in line to be prodded overseas may be Norin Chukin, the farmers' bank. It wants foreign securities to make up 20-30% of its Y9.7 trillion portfolio but until recently had its arm twisted by the Finance Ministry to keep that to around 5%. Then there is the Postal Bank's life insurance and pension fund, the *Kampo*. It is allowed to invest up to 10% of its Y28 trillion of assets overseas but has invested less than 3%.

These arrangements for still larger outflows of Japanese capital will not, by themselves, be enough to keep the yen weak. And they can be risky: the seven top Japanese life insurance firms had to write off Y600 billion in exchange losses on foreign investments for the year to March 31 1986. But every time bad trade figures, rumours of interest rate cuts or depressing economic statistics in America push the dollar down, Japan's Finance Ministry will be tempted to open its sluices a little wider.





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BREAKTHROUGH: AN ELECTRIC DISH THAT HARVESTS THE SUN.

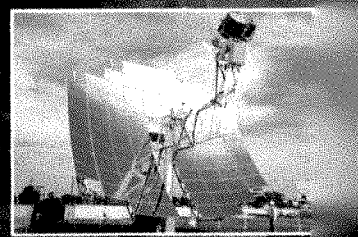
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Bank results 1985



	Total Assets £bn	Shareholders' Funds £bn	Loan Capital £bn	Pre-tax Profit £m	Merchant Bank	Pre-tax Profit £m
NatWest	72.5	3.0	2.7	804	County Bank	11
Barclays	65.2	3.3	2.1	854	Barclays Merchant Bank	21
Midland	58.1	2.1	1.9	351	Samuel Montagu	54*
Lloyds	43.8	2.3	1.6	561	Lloyds Merchant Bank	na

*after tax

but will not yet show its hand.

British firms are not alone in judging access to American treasury bonds an essential ingredient to international success in securities. No matter that the \$100 billion-a-day market looks as though it has peaked just now; some 16 financial institutions—including Japan's big four securities firms—have applied to join the 35 existing primary dealers, pledging themselves to maintain a level of trading which looks likely to depress profit all round.

For Britain's clearers there are just four months to go before fixed minimum commissions and the mandatory barrier between broking and market-making are formally dismantled. With nothing then to keep them out of the securities markets, the question of which foreign markets to enter, and how, is one of several choices coming sharply into focus.

All the clearers intend to be primary market-makers in British-government bonds (gilts). Barclays de Zoete Wedd (Barclays' investment-banking arm) begins with the plus of having one of the old market's two main gilt-edged jobbers. But Midland Bank's securities subsidiary, Montagu Greenwell Investment Bank (which also has special expertise in gilts), announced on July 1st that it plans to set up a separately-capitalised money-market unit, too, dealing in short- as well as long-dated gilts. It hopes, in time, that this will be recognised as a discount house and deal with the Bank of England on special terms. Lloyds may move in the same direction.

Drawing dividing lines between the parent bank and securities subsidiary is tricky. Most of the clearers' burgeoning investment banks agree it would be most efficient to centralise a whole group's treasury activities in its capital-markets subsidiary. Several American banks, including Citicorp and Bankers Trust, have recently done just that. But only one British bank has (partly) swung it: Montagu Greenwell. And not by accident. One of Montagu Greenwell's two joint managing directors, Mr Ernst Brutsche, worked at Citicorp before heading Midland Bank's own treasury operations. His co-director, Mr Robert Logan, is another Citicorp alumnus.

Capital for the new securities offshoots

seems less of a constraint than how to use it. NatWest is committing £311m, Midland around £300m, Barclays about £235m and Lloyds some £135m. Of them all, Midland appears to be committing the biggest proportion of its own shareholders' funds (see table), Barclays to be shooting for the highest return. More is likely to be available if things go well. Will they? That depends, partly, on what capital ratios the regulators will require for different bits of these diversified groups and how they will consolidate them with the banking parent's. Papers from a raft of regulators will either clear or stir things up within weeks.

American bond market

Ouch!

NEW YORK

Wall Street's finest have lost their shirts in the government-bond market, and have mainly the Japanese to blame. An often-used trading strategy has backfired on the likes of Goldman Sachs, which reportedly

lost some \$50m. Salomon Brothers is believed to have lost \$70m-80m, and the market as a whole is thought to have had some \$250-300m wiped off its profit-and-loss accounts in a few weeks.

Bond houses usually protect their long positions in the most recent treasury offering by going short on the previous one. That is supposed to protect the firm against big losses, as prices on the new and old issues normally move in a predictable pattern. Treasuries are also used—in the absence of better alternatives—to hedge Eurobonds, other corporate bonds and municipals.

Several weeks ago it all went haywire. Goldman Sachs, for instance, shorted 30-year treasury bonds issued in February with a 9½% coupon to protect the 7½% 30-year bonds they bought in May. They were then forced to cover their contracts at higher prices. Japanese financial institutions had, not by coincidence, been unusually large buyers of the 9½% issue, pushing up the price and taking large wedges out of trading altogether.

Things went from bad to worse. The old issue (which now sells to yield 7.60%) was slightly more attractive than the new one, now trading at par to yield 7.25%. And traders lost money on some other deals. Goldman Sachs, for instance, on badly-hedged Eurobonds and other corporate bonds (though it says it has now earned all this back). Government-bond houses are now sadder, wiser and poorer. The moral? There are no perfect hedges in the bond market, especially when the Japanese are putting on the squeeze.

Woolworth wins another chance

As expected, the margin of Woolworth Holdings' victory in seeing off a £1.9 billion (\$2.9 billion) takeover bid from Dixons was more comfortable than the fight had been. By the offer's closing time of 1pm on July 2nd, Mr Stanley Kalms's high-street electrical group had secured only 35.6% of Woolworth's equity. But the outcome was in the balance till the very last.

Dixons has now retired from the field nursing a bill for the £12m it says its bid cost (excluding the cost of buying a 3-4% stake in Woolworth). It had to wage an unusual fight. From the start, only about 5% of Woolworth's equity was in the hands of private individuals. Institutional investors dominated Woolworth's share register, and five of them held nearly 40% of the equity between them.

The institutions proved dutifully loyal to the existing management at Woolworth, led by Mr Geoffrey Mulcahy who was involved in the original institutional consortium that bought out British Woolworth from its American parent in

1983. Such loyalty is rare enough these days, but it is a tribute, too, to a spirited defence waged by Mr Mulcahy in convincing the institutions that the promise of the Focus recovery plan he has started is greater than a blind date with Mr Kalms for all his flair. Mr Mulcahy was also helped by Mr Kalms's (in the event) too-finely priced bid; and by institutions' worries about the way the weightings of the retail part of their share portfolios would be skewed. Having got the benefit of the doubt, Mr Mulcahy now owes the institutions a favour.



Mulcahy snubs Kalms

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May 1986



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INVESTMENT BANKS

Managing greed and risk on Wall Street

NEW YORK

How should Wall Street's fast growing and fast changing investment banks manage themselves? Few on Wall Street have had to think how best to run tomorrow's business, so concentrated have minds been on making today's profit. But so explosive has been the growth of the business, they need to now

Wall Street manages itself by the seat of its pants. In investment banking, to be a "manager" is to be held in contempt. The top men in Wall Street firms like to call themselves "producer managers"—the guys who rose to the top because they did the most deals and wrote the most business. Such individuals are not necessarily gifted in the art of managing men.

This entrepreneurial, individualistic tradition in investment banks suits small flexible organisations. In Wall Street, however, it is fast becoming unsustainable. In the past few years, the number of employees at each of the top investment banks has surged from a few hundred to 4,000 and more—many more in the case of Merrill Lynch and Drexel Burnham Lambert which have retail brokerage networks.

This trend will continue as the industry becomes increasingly concentrated on the top six houses. America's investment banks operate a virtual oligopoly. In the last quarter of 1986, Drexel Burnham, First Boston, Goldman Sachs, Merrill Lynch, Morgan Stanley and Salomon Brothers, had an 87.5% share of the primary-debt market. The same concentration exists in other areas of the business, be it corporate finance, swaps or government securities.

Five of these so-called "special-bracket" firms have prospered because of their lack of bureaucracy and professional management. The investment banker's traditional skills, like those of London's merchant bankers, have always been flexibility and creativity: the ability to turn on a dime while turning a dime.

The odd man out is Merrill Lynch, a hybrid that combines investment banking with retail broking carried out by an army in America of 11,000 salesmen. A colossus, Merrill Lynch suffers in today's capital markets because of its lack of focus.



A new perspective on the old view

The firm seeks to build a presence in every market. That is not good in a business where the key to success is integration and co-ordination among the various specialists—researchers, salesmen and traders. One result is Merrill's 10% return on equity in 1985 compared with, say, Morgan Stanley's 34%.

However, sheer growth—in terms of numbers of people, capital, and assets (see chart page 71)—means that investment banks are fast approaching the critical point at which bureaucratic habits become inevitable to prevent outright

chaos. It is simply not possible to run a firm of 5,000 the same way as a firm of a few hundred. But that is what Salomon, Drexel, Goldman and the others on Wall Street are still trying to do.

The result is Catch 22. If the investment banks carry on as they are, they risk losing their way as a management style of creative anarchy, successful so far, grows more dangerous with size. Yet if they try to bring in conventional management controls and even—horror of horrors—professional managers, they risk tampering with the very basis of their success: the constant internal fluidity that has let them respond quickly to changes in the marketplace.

So far, the investment banks have been able to ignore this problem for one reason only—business is booming. Wall Street has not seen so much popular attention since the late 1920s. Star performers are lionised, seven-figure salaries and bonuses are commonplace and—the classic sign of an industry that is peaking—Harvard Business School graduates are rushing to join it (page 72).

This frothy activity is a temporary phenomenon in a notoriously cyclical industry. The more prudent souls at the top of these institutions should be pondering the broader management issue. This can be divided into two—the management of people and the management of risk (which, in investment banks, means the management of their capital against their exposure in securities).

Investment banks' management of people has become topical because of recent insider trading cases, most notably against 33-year-old Mr Dennis Levine, most recently of Drexel Burnham, who has pleaded guilty to accumulating \$12.6m by trading on insider information. This case and others—including one brought against a second employee of the unfortunate Drexel—has raised concern over declining ethical standards.

The reaction of the Wall Street houses has been predictable in its moral stringency, not all of which is self-serving humbug. Many bosses on Wall Street seem genuinely shocked by Mr Levine's actions. One Goldman Sachs executive expressed the opinion quite seriously to this correspondent that Mr Levine should be shot. The reaction is so extreme not only because the good name of the industry is at stake. There is also a broader dimension. In American culture, capitalism is

WALL STREET INVESTMENT BANKS

good and breaking the law is bad. Mr Levine managed to upset both these cherished absolutes.

Because it is the most embarrassed, Drexel has reacted the most aggressively, sensibly realising that the best form of defence is attack (see opposite). Its chairman Mr Robert Linton, speaks of wider use of lie detectors and more employment of detective agencies to check the background and lifestyle of newcomers to the firm. Such "1984" tactics would seem to remove an employer's traditional responsibility, namely judgment of character.

Drexel and those other investment banks which competed to pay Mr Levine \$1m a year try to have it both ways. He was in demand precisely because he was known to receive tips through his contacts with arbitrageurs. By its very definition, information is only useful if others in the market do not have it. Nobody can define the exact bounds of insider trading anyway. Nor should institutions which encourage people to fine tune their greed through the development of specific skills be so shocked when that greed degenerates into the pathological.

Managing greedy people is, in fact, a big challenge for the investment banks, and a much broader one than the question of catching abuse. In turbulent, mobile Wall Street, holding on to the best people is a top priority of bosses. It becomes even more crucial when investment banks go public.

The need to raise capital to underpin firms' burgeoning trading operations has been so great that only two of the special bracket investment banks—Goldman and Drexel—remain privately owned. They will cling to this status as long as they can afford to. Staying private preserves mystique, a vital part of any investment bank's allure. It allows freedom from quarterly reporting, the bane of long-term strategic planning. And, as important, it offers employees the lure of a partnership. When a firm goes public, that ultimate incentive to loyalty is lost, though publicly-owned firms try to overcome this by offering their employees equity.

Size generates another disincentive to loyalty. The bigger a company is, the smaller the percentage of its staff who will become partners or shareholders. Yet investment bankers tend to be high fliers who see themselves as potential partners or equity-holders in the business. Given any kind of downturn, and a fall in bonuses if not also salaries, today's frenzied pursuit of profit is likely to turn into tomorrow's cat fight.

Historically, Goldman is reckoned to be Wall Street's best managed firm and, consequently, the one with the most loyal employees. Its recruits have to subordi-

Drexel Burnham Lambert Incorporated

May 29, 1986

MEMO TO ALL EMPLOYEES

FROM: FRED JOSEPH

During the past few weeks, several lawyers and Wall Street professionals, including three former Drexel Burnham professionals, have been accused, in separate incidents, of breaking the law or violating the standards of integrity in the conduct of a business traditionally based on trust and honor. For some reason these people placed in jeopardy - and may have destroyed - their reputations, careers and personal financial condition. Today, they face possible jail sentences. Those of us in our firm, who have observed the standards and rules of the business, have opportunities that are exceptional. To squander these opportunities is incredibly foolish.

Because the integrity, and the perceived integrity, of our markets and our firm is the jugular vein our business, we have never and must never tolerate any violations of the law or of the firm's and industry's rules. Indeed, even activities that are simply too close to the line and fail our "smell" test must be rejected as unacceptable. This has been, of course, our historic attitude and it served us well. Now, we will redouble our vigilance and efforts. For example, over the past year, we have utilized independent outside counsel and other special investigative consultants to help us strengthen our operating procedures and security measures. We are pursuing this vigorously and, while this intensification may be inconvenient, we know you will understand and cooperate. This effort will be a very serious priority for our senior management team. Please contact any senior officer if you have any information, thoughts, or suggestions, which you think might be helpful.

We can all take some comfort from the fact that our firm has not been accused of any wrongdoing. We have been the fastest growing and among the most successful firms in the history of our business by working hard and performing effectively for our clients. Now is the time for each of us to rededicate ourselves to those values on which we've built Drexel Burnham and concentrate all of our energies and resources on serving our clients' requirements.



FHJ:M

nate themselves to a defined corporate culture—Goldman even prints a list of, in the phrase of one partner, "corny" business principles—which stresses teamwork at the expense of individual ego.

Goldman likes to compare itself with Japanese companies. It seeks to hire recruits from college for life and claims to have the lowest staff turnover on Wall Street—some 2-3% a year. It freely admits that all of its employees could probably command a higher salary in another Wall Street house—it is unlikely that anybody at Goldman has a basic salary of \$1m. They do not leave because of the lure of a partnership. The highest fliers became partners by their mid-30s.

Goldman is right to be proud of this record for loyalty in an industry whose younger generation is growing increasingly mobile (witness Mr Levine himself who moved three times in seven years). But even at Goldman the changing business and need to recruit experienced hands in

new product areas, not to mention the active hiring going on in the two "burstin shells" of London and Tokyo, must mean an inevitable dilution of the culture.

A different management style can also succeed on Wall Street. Take Salomon Brothers. As Wall Street's most successful bond trader, it has prospered in a debt-craving age. Salomon's culture is less one of teamwork than of raw meritocracy. A myth has grown up that Salomon thrives on an adversarial approach to management. This is too simplistic. Many successful Salomon employees may be hard-nosed, blinkered in outlook and short on small talk. But to suggest that the firm has done so well by employees hurling abuse at each other betrays a failure to understand what makes people perform. Salomon's chairman, Mr John Gutfreund, says that he finds it insulting for people to think him so unintelligent as to practise such a management style. "How would we do as well as we have

done if we were putting each other down all the time?" he asks.

One sign of Salomon's success at handling people is that only 15 managing directors out of the current 100 have left or retired from the firm since it went public by selling out to commodity trader Phibro in 1981. (Indeed, prospering Salomon now runs the demoralised Phibro.) As Salomon partners each made millions on that deal, their motive for staying on is not just to make even more money. They must also enjoy working for Salomon, a view shared by Mr Gutfreund, himself a career employee and career trader who is happiest sitting at his desk on the company's trading floor. He is well rewarded for it—his pay packet weighed in at \$3.1m last year.

Throughout Wall Street, senior management's worry is whether the younger generation now being lured into the business by the mega-salaries on offer will show similar loyalty and *esprit de corps*. It is unlikely that it will: quantity may not breed quality. There is another danger. As the number of investment bankers grows and more top jobs are occupied by highly-paid brash young men and women, there are increasingly few people at these institutions who can recall that there are bear as well as bull markets.

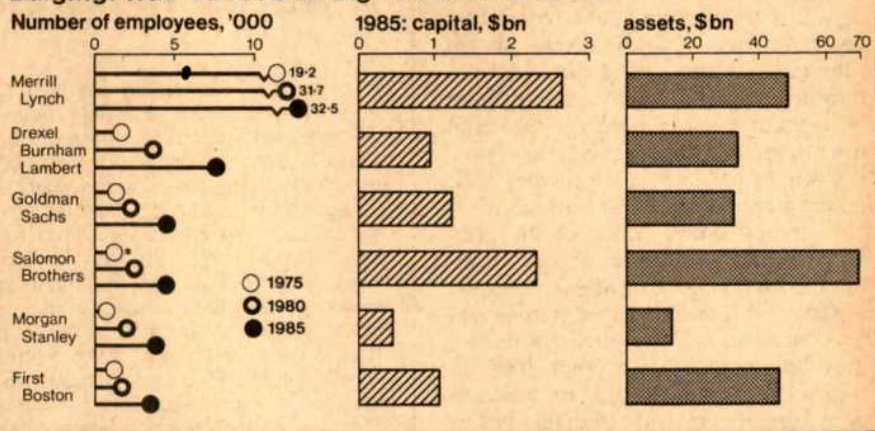
This would be less important if investment bankers still relied primarily on fee income to pay their salaries. That is no longer the case. Trading is now the key contributor to earnings at most firms, and trading by its demanding nature (12 hours a day in front of a screen with not even a lunch break) is a youngster's business. This raises the other management issue—managing risk.

Responsible risk

Trading is inherently risky. Everyday investment banks bet huge sums. The biggest risk-taker of them all is Salomon. It currently holds "assets", which in investment banking means paper securities bought with borrowed money, of up to \$80 billion on a capital base which at the end of 1985 was \$2.3 billion. The trick that has made Salomon the best bond trader in the business is to take a small spread on every deal and to keep the flow of paper moving.

Investment bankers appear confident that they do an adequate job managing risk from trading. But they find it hard to explain exactly how they do it. Managing risk, they argue correctly, is their expertise and is what their business is all about. It is what separates them from commercial bankers, who tend to be more risk-averse though some commercial banks—most notably Bankers Trust—are now trying to graft on an investment-banking culture of risk-taking.

Bulging: Wall Street's six big investment banks



Sources: SIA, company reports

*September 30th

So far the record supports this self-confidence. The problem is that because risk taking is an intuitive business—the phrase "feel for the market" is popular among traders—it does not lend itself to formal management controls. Although financial limits (as well as exposures to individual institutions) are usually set, they are often broken deliberately. The flexibility in this area varies from firm to firm. Most flexible is probably Salomon where it is declared policy that there are no limits. By saying this Salomon does not seek to appear a bigger gambler than its competitors. Rather it is making a virtue of its minute-by-minute management of market positions.

Trading by its very nature is the most short-term of businesses. In the trading room decisions are taken constantly. "Meetings", in the form of a five-sen-

tence discussion between trader and salesman over five yards of space, happen all the time. (More formal meetings only occur at Salomon before treasury auctions.) Management is provided by a managing director, probably a former trader, who sits among the traders. He is constantly in touch with the positions his traders are taking in the markets, and will soon make it known if he does not like something. In this environment, communication is crucial. Hence the need for big, open trading floors.

The most essential trading discipline, and one preached by every investment banker, is to know when to take a loss. Salomon says it never runs a position for more than two days. Usually it aims to be out by noon the next day. As it goes against human nature to take a loss on any investment, because it means admit-



Gutfreund in his favourite spot

ting one is wrong, this is the management discipline within investment banks that needs to be rigorously and constantly enforced. (It is not always, as was shown in the internal bust-up at Lehman Brothers which stemmed from trading losses.) The need to monitor traders is a demand on management time that can only grow as positions get larger, which they will, and the number of traders increases.

Professor Samuel Hayes of the Harvard Business School, an expert on investment banking, describes the trend towards ever more leveraged trading and the consequent risk of capital erosion as a "time bomb". He has a point. Today's remorseless need for capital on which to churn around constantly changing bits of tradeable paper—be it government bonds, securitised mortgages, car loans and now credit-card loans—can only sustain itself for so long.

But, for the moment, there seems no stopping the momentum. Talk at Salomon is already of needing \$10 billion of capital in ten years. That probably means it will have to sell itself again.

Apart from sheer leveraging—which makes investment banks vulnerable to macro events "out there", by which investment bankers mean events in the real world away from their screen—there are other grounds for caution.

- Margins are narrowing. Investment banks used to enjoy far wider spreads in their middleman's role between the issuer of a security and the purchaser of it. These smaller margins force the banks to take larger positions to generate the same amount of income.

- Product cycles are getting shorter. Investment bankers are constantly looking for new products. Sometimes they hit a winner. Drexel made its name with high-yield "junk" bonds. The firm still enjoys a 56% market share because it has built up an effective distribution system. This lets it preserve the margins which have enabled it to jump from nowhere into the big league on what, by the standards of its special-bracket competitors, is a very narrow product base. But junk is, so far, an exception to the rule. Products can be quickly copied by competitors. This makes it not only the most short-term of industries in the trading sense, but also in terms of its product cycles. The modern investment bank is like a collection of cottage industries, each of which is a different profit centre working on its own product, and with a constant need to erect new cottages.

- Arbitrage opportunities are not infinite. Arbitrage has become more refined with the development of hedging instruments and computerised programme trading. However, there are problems. There is no perfect hedge. In the second

A warning signal

CAMBRIDGE, MASS

It is an old joke along the Charles river that when Harvard Business School graduates rush to join an industry, it is a classic contrary indicator. If true, investment banking has tough times ahead.

Historically, about 6% of Harvard's annual class of 780 students goes into investment banking. This year the figure has shot up to 30%. The overwhelming reason given by the students was money. Desperate to get the pick of the crop, Wall Street's investment banks are offering starting salaries of up to \$80,000, plus the chance of doubling it with bonuses. This is more than the best management consultancies are offering.

The investment banks may be overdoing it. The Harvard Business School course is designed to train general managers of men, and its students are selected with that end in mind. The skills required to be a manager in manufacturing industry are different from those that make an investment banker.

Such considerations have not deterred the investment banks. The result is they are hiring a lot of people who have no intrinsic interest in or aptitude for their business but cannot resist the cash on the table. They may well not be the best people to have around when the market next jibs the gizzlies.

quarter of this year, the investment banks lost an estimated \$250m-300m, mainly because of the falling bond market (see page 67). One reason was that the computerised hedging programmes did not work as they had been expected to: the computer wizards being hired on Wall Street cannot always deliver the goods. A second problem is that even if they did, it would be no ultimate solution. For if perfect hedges could be constructed, that in itself would make the market more perfect and limit the opportunity for profitable arbitrage between related contracts. The future of arbitrage will be increasingly complex as programmes seek to profit from increasingly narrow spreads.

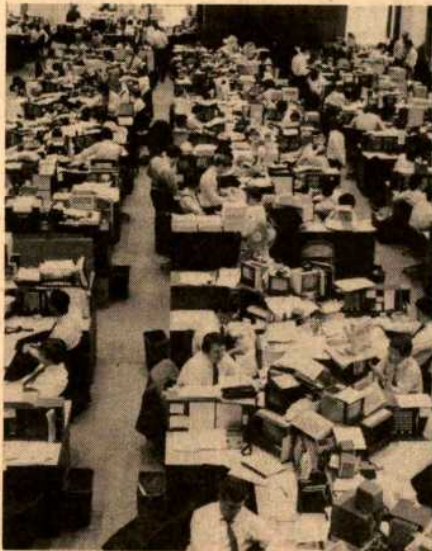
- Rising interest rates would hit profits. Investment banks have made money in the past few years out of falling interest rates and a rallying bond market. As traders, investment banks tend to be long of stock, which generally means long of bonds (and is another reason they lost money in the second quarter and made money in the first—in the case of Salomon's a pre-tax profit of \$290m). As underwriters, they benefit as low interest rates encourage companies to borrow or refinance. As borrowers, they benefit as lower interest rates reduce the cost of carrying the inventory of securities in their balance sheets.

Because the nature of the investment-banking business is so short term and management is so concentrated on the here-and-now, precious little is being done to prepare for different business conditions. Costs, for example, rose by 16% in 1985 to a level 34% higher than in 1983, according to the Securities Industry Association. Indeed, attention is so fixed on the computer screen that an investment bank is unlikely to see disaster until it hits it in the face.

Tugged along by the size of their swell-

ing balance sheets, investment banks are getting ever more transaction-oriented at the expense of the old customer tradition of offering disinterested advice to a long-standing client. In such a climate, what investment bankers fear most is less some unexpected cataclysm, which at least means activity, than boring markets.

More than anything today's investment bank feeds off volatility. If the economy slows, interest rates stabilise and debt goes out of fashion, investment banks will need all their traditional creative flexibility to survive. Their management problems will be that they have built up huge and costly operations in bond trading, especially—consisting of people, office space and technology—which will not survive a drop in trading volume. At that point any question of "strategic management" would be lost in a desperate rush for cover. There may be a lot of people currently doing deals on Wall Street. There will be many fewer left to mop it up after them.



How do you deal with this lot?

SCIENCE AND TECHNOLOGY

The spark plug that could save forests

The "lean-burn" engine is the Holy Grail of car engineers. By using more air to burn less fuel, it promises more miles per gallon and less pollution. Since there is no longer much doubt that car-exhaust fumes are the main killer of trees in central Europe, it is all the more disappointing that the Grail has remained unattainable. Until now. At last engineers seem to have a practical technology to make existing engines lean and clean.

A car engine harnesses the energy released in a flame to move a piston. The engine's efficiency depends on several factors, including how quickly the fuel burns. The engine's cleanliness depends on how thoroughly it burns up all the fuel and on the temperature of the flame (because a hot flame burns some of the nitrogen that is in the air). To make a car engine that is as efficient and as clean as possible, you have to burn as much of the fuel as fully as possible, at as low a temperature as practicable, and as quickly as possible. Juggling those three variables can be tricky.

As a general rule, a lean burn (ie, more air and less fuel in each explosion in the cylinders) gives greater efficiency and lower nitrogen-oxide emissions. But it fails to burn quickly or thoroughly, which negates these advantages. In controlling emissions to meet stricter standards, American carmakers toyed with the idea of developing lean burn but abandoned it in favour of three-way catalysts. European carmakers have mostly taken the same decision. But you cannot have both a three-way catalyst and a lean-burn engine. To work, a three-way catalyst must be attached to an engine that is burning a comparatively rich 14.65 parts of air to one part of fuel. It is almost as if the engine must first produce dirty exhaust for the catalyst to clean up.

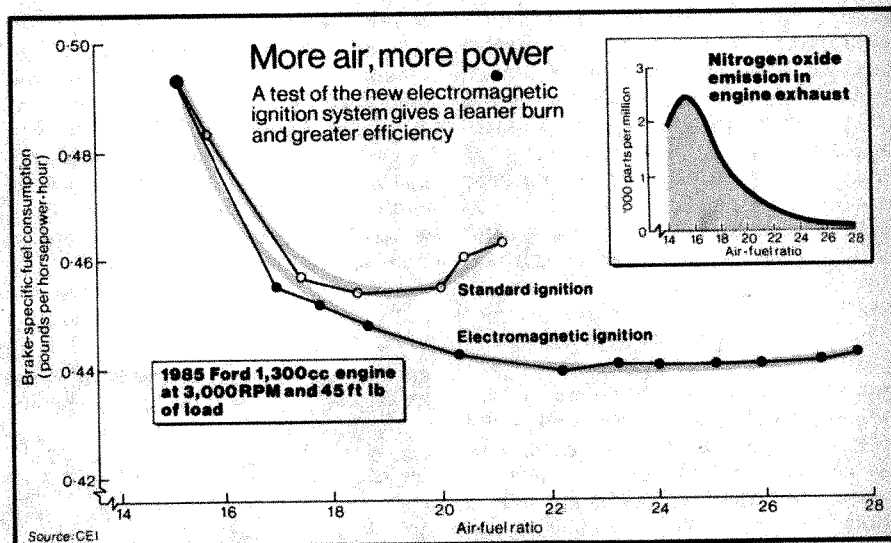
That could soon change. Combustion Electromagnetics (CEI), of Arlington, Massachusetts, has developed an ignition system that allows an ordinary engine to burn mixtures of up to 24-to-one with little loss of performance. The result is virtually no nitrogen oxides in the exhaust

and a fifth more miles to every gallon.

How did CEI reach this goal? Dr Michael Ward, the company's president and main inventor, says a central problem is the speed with which the flame propagates through the mixture of fuel and air in the cylinder. The leaner the mixture, the slower the flame moves from the spark plug and the more susceptible it is to dying out or quenching. If it moves too slowly, the flame has not completed its passage before the piston has moved down too far to harness the combustion energy; if it starts too soon, the flame is burning when the mixture has not yet

electrical phenomenon as well as a fluid-dynamics one. A flame is a place where molecules of fuel are hot enough to react with molecules of oxygen. But what does "hot" mean? It means excited enough to collide energetically with oxygen molecules and react. There are two ways for a molecule to get excited: one is for the whole molecule to rush about more; the other is for its constituent atoms and electrons to do so. Excite the molecules and electrons, and you speed up the flame's propagation.

A way to excite the molecules, Dr Ward realised, was to supplement the initial flame with additional charged particles—ie, inject a "plasma"—and put a strong electromagnetic field across the plasma-containing flame. The energy of the field would then be transferred to the electrons, and in turn to the molecules, and the flame would burn faster. Once launched, the flame itself generates an



been properly compressed.

Most lean burners try to get round this using the science of fluid dynamics. In plain English, they swirl and squish the air, building engines so that the air in the cylinder is made to flow in certain ways as the piston moves up. But this approach has not made much progress, mostly because swirl and squish waste energy by increasing the flame's tendency to lose its heat to the cylinder casing and because the generation of swirl necessarily inhibits the engine's ability to breathe air through the carburettor.

Dr Ward tried thinking of a flame as an

abundance of free electrons and ions.

Experiments showed that Dr Ward and his colleagues, Dr Fred Kern of CEI and Professor Tai Wu of Harvard University, were on the right track. A field of 1,000 volts per centimetre—requiring only a few watts of power—doubled the speed with which a flame spread through a given mixture or, to put it another way, increased the rate of energy release of the flame by hundreds of watts.

But how to introduce the initial plasma, and to maintain an electric field across the initial weak flame, without resorting to costly and impracticable components?

CEI engineers solved this problem this year by following up several obscure and unexplained observations made about ignition in a different context.

More than that they will not say until the patents are safe, but in May they demonstrated to a big European maker of car components the ignition they had modified in an ordinary (non-lean-burn) Ford Escort 1300-cc engine. The results were impressive. With CEI's electromagnetic ignition system, the engine went from its normal 17-to-one air-fuel ratio right up to 22-to-one without misfiring, getting steadily more efficient.

At that mixture, the nitrogen-oxide pollution problem virtually disappears. Another one (hydrocarbon emission) takes its place, but that can be taken care of with a simple and cheap oxidation catalyst on the exhaust—costing much less than the three-way catalyst otherwise required and much more tolerant of lean mixtures and variable temperatures. And 20% less fuel is needed to provide the same power. The greater efficiency comes from the throttle being more open at a given power output, so reducing vacuum drag on the piston.

The European company (which wants to remain anonymous) was anxious to see how the engine performed at high loads and high revs. Dr Ward pleaded that his prototype ignition could not be expected to go all the way first time out. Yet, at an air-fuel ratio of 24-to-one, the engine was still going well under these high-load, high-rev conditions. The ratio was turned up to 26-to-one with no loss of efficiency (see chart on previous page). At 28-to-one, well into the range where a lean-burn engine that relied on squish and swirl would misfire, the engine showed a few fluctuations but no misfiring.

Other technologies have reached such leanness. Shell achieved it a decade ago in experimental engines; Dr Ward had no trouble reaching it with a system called plasma-jet ignition, and exceeding it in the laboratory with a microwave-plasma system. But these technologies required exotic materials or a redesign of the whole engine. By contrast, the new technology is built from simple modifications to normal components—plugs, coils, cables and distributors. The system will fit on a normal engine.

The European company has confirmed to *The Economist* that CEI's claims are broadly true. But the company remains cautious. While patents are being filed, it has not yet been told the secret of how the thing works. It cannot therefore guess whether the system is practicable. Turning an idea into a reliable engine component takes time and much money. But the two companies may decide to join forces to develop the invention.

Dr Ward is sure that his company's breakthrough will excite America's car-makers. They want to cut the costs of their cars to make them more competitive against imports, and getting rid of the three-way catalyst (but leaving on the cheaper oxidation catalyst) could shave nearly \$800 off the cost of the average American car. Reducing fuel consumption by a fifth is also a big bonus. But Detroit will have to move quickly. If the engine lives up to its promise, Japanese and European motor companies will also be beating a path to CEI's door.

AIDS

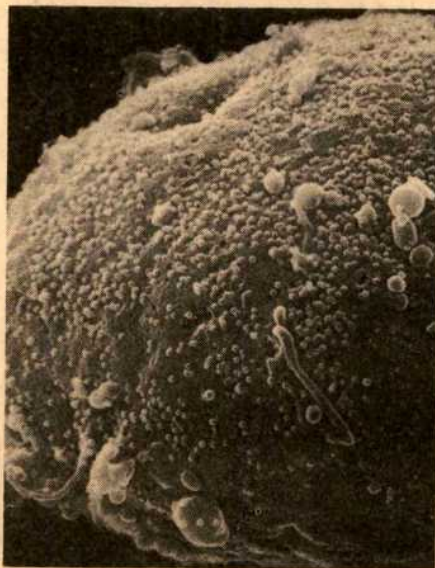
Know the enemy

PARIS

The scientists working on AIDS can be divided into three groups: those trying to treat the disease; those trying to understand and prevent its spread; and those trying to work out exactly how the virus works and so come up with a scheme for defeating it.

At a recent conference in Paris, the virologists had the most to report. They are learning more about their enemy's ways—and an awesome enemy it is.

- It has the effrontery to attack the very part of the body—the T cells of the immune system—that is responsible for co-ordinating the fight against disease.
- Like the Greeks in the Trojan horse, it can enter the body inside an infected cell and move from cell to cell, evading any antibodies present in the blood.
- Like the 'flu virus, it can vary its genetic code, outwitting a vaccine.
- Like the cold virus, it conceals the parts of its protein coat that a vaccine could attack.



Viruses dot the surface of a T cell

- It can lie low within infected cells for years, while its host remains infectious.
- Once it starts to breed (or rather to make the body produce copies of it), it has a special gene, called the trans-activator, that boosts production enormously.

Dr Robert Redfield of the Walter Reed Army Institute of Research in Washington, DC, has developed a way of classifying the progression of the disease from infection through six stages to full-blown AIDS. The figures, he says, give no cause for comfort. Given long enough, more than 90% of infected people seem to start down the path from stage to stage.

Nonetheless, the trigger that turns infection into disease seems to be less sensitive in healthy people than in those bombarded with other infections. Only one in 12 of those infected by a blood transfusion gets AIDS itself within five years; more like 30% of homosexually infected men—many of whom have been exposed to other infections by anal intercourse—get it within the same period. To be one of the longer-surviving infected is a Pyrrhic victory, for those carriers who remain healthy longest die quickest once the disease appears.

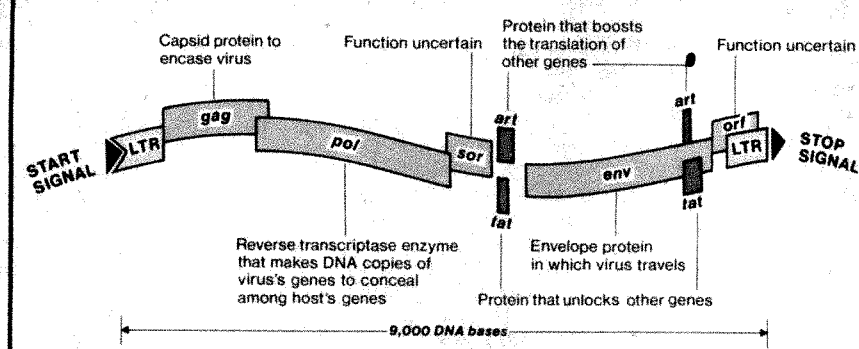
What triggers the reawakening of the virus? So far the only clue that scientists have is that the T cell containing a copy of the virus's genes stitched into its own must itself be "activated" before those genes are switched on and viruses are built. An activated T cell is one that has been instructed to proliferate and destroy an invading disease. Normally, a healthy cell is so instructed. Unluckily, and rarely, an infected cell gets the call.

That still does not explain how the genes are switched on. Here, too, progress is reported. The virus has seven genes (see chart on next page), three of which—*gag*, *pol* and *env*—are common to all such viruses and four of which—*tat*, *sor* and *orf*—are unique to the AIDS virus. *Tat* and *art* boost the virus's replication.

Once it has started to replicate, the virus kills cells of the immune system, leaving the carrier increasingly vulnerable to other infections. How it does the killing is still controversial. This dispute rumbled through many of the debates on virology in Paris. Like all good arguments, it is short on facts, long on opinion. The outcome matters a lot. For it is by understanding this part of the story that medical scientists have the best hope of achieving a cure.

The virus can infect many human cells but kills only those that have on their surfaces a particular molecule called the T4 receptor. Human cells that have T4 receptors include "helper" T cells, the officers of the immune-system army. They also include several other cells, in

Blueprint for a killer The AIDS virus's genes and how they work



particular the so-called monocyte macrophages, which can invade the brain.

Two of the theories about how the virus kills T cells therefore concentrate on that T4 receptor. The one championed by the team from France's Pasteur Institute is that the virus somehow triggers an autoimmune disease—ie, one in which the body's immune system attacks itself. The body produces antibodies to the virus and the antibodies attack the T4 receptors, smothering the helper T cells and killing them. For this to be correct, part of the virus must somehow resemble the T4 receptor in shape.

The second theory is more subtle. Dr Bill Haseltine of Harvard Medical School has been experimenting with the virus's ability to kill T cells after mutations have been made to several of its genes. It turns out that *env* is the recipe for a protein that alone can kill cells—ie, without the rest of the virus being present. *Env* is the protein that makes up the envelope of the virus and, when made, goes to the outside membrane of the cell. It is also an obvious candidate for a vaccine, so its lethal nature is not encouraging.

Dr Haseltine's theory is that the part of *env* protein that lies beyond the membrane, on the outside of the cell (called gp-120) somehow reacts with T4 receptors (which are also on membranes) and causes the two membranes to fuse. The result is either that the cell begins to turn in on itself as its membranes fuse with each other, or that another nearby cell with T4 receptors fuses with the infected cell. It is common to find in AIDS victims giant "syncytia" of fused cells. Such syncytia die, as do the cells that have turned in on themselves.

Circumstantial evidence exists to support Dr Haseltine's ideas. His theory is consistent with the fact that whether a cell dies depends not on the amount of virus it contains but on the number of T4 receptors it has. It is also consistent with the finding that cell-to-cell transmission of the virus can happen even when competent anti-*env* antibodies are present outside the cells—ie, by cell fusion, which

allows the virus to pass without going out and encountering the antibodies. Moreover, a cell that contains the *env* gene but not the T4 receptor can kill other T4-containing cells but is not killed itself.

Dr Robert Gallo of the National Cancer Institute, and his colleague Dr Mandy Fisher, are the principal critics of Dr Haseltine's notion. Dr Gallo's theory is that the virus somehow triggers prematurely the normal process of "terminal differentiation", by which T cells commit suicide at the end of their useful lives. There is a fourth theory that infected cells contain "unintegrated" DNA—ie, copies of the virus's genes that are not stitched into the host cell's genes—and that these are somehow lethal. But the smart money is on Dr Haseltine.

Eureka

Less foggy

Europe has moved with uncharacteristic haste to put flesh on the bones of Eureka—President Mitterrand's plan for a civilian Euro-initiative to match the boost that the "star-wars" billions will give America's high-technology industries. Eureka was launched amid widespread confusion about its aims and methods only 15 months ago. Yet European ministers left their third ministerial conference, held in London this week, with firm agreements for 72 pan-European R&D projects to go ahead at a total cost of more than \$2 billion.

By no means all of this money will come from the 19 governments taking part in the Eureka programme. To join Eureka, companies from participating countries (Iceland was admitted this week) are required to find R&D collaborators elsewhere in Europe and submit their projects to the Eureka secretariat for approval. Approval does not guarantee that governments will hand over any cash: participants in approved projects must apply to their home governments for financial assistance. How governments

respond is up to them. Britain, for instance, has set an upper limit of 50% of research costs and 25% of development costs.

Eureka projects are supposed, in principle, to lead to the rapid development of high-tech products for a pan-European market. Some of the biggest of the 62 new projects announced this week give the flavour:

- Three European telecoms companies—France's Alcatel, Italy's Italtel and Britain's Plessey—have banded together under Eureka to develop chips and lasers to make the transmission of information by existing telephone networks up to 2,000 times faster than it is today. Optical fibres will enable telephone networks to carry pictures as well as speech, opening the way for them to provide such new services as videophones and high-definition television to homes and businesses. The companies expect the project to cost about \$160m, and to produce a prototype system by the early 1990s.

- In a project called Prometheus, 13 European car manufacturers are collaborating on research into computer-aided driving. They are trying to come up with cars fitted with sensors and microcomputers that can spot danger early and avoid collisions in, say, fog by warning the driver or by overriding his controls. The project is expected to cost about \$15m in the first year, and about \$55m in each of the following seven years.

- Under a Eureka project called East, a consortium of seven French, Danish, Swiss and Italian companies hopes to find ways to improve the quality of computer software and to cut the cost of writing it. The six-year R&D project is budgeted to cost more than \$140m. A parallel Eureka project, involving companies from France, Norway, Spain, Sweden and West Germany, will lead to the creation of a European software factory. The cost is put at \$327m over eight years. The companies involved in East say that Europe needs a co-ordinated software engineering project to counter similar initiatives in the United States (the Pentagon's new software engineering institute in Pittsburgh) and Japan (the government's fifth-generation computer project).

Not all Eureka projects are as ambitious. Tiddlers range from a Franco-Spanish project to produce new varieties of sunflowers (ten years, \$4m), to a Belgian-Austrian project on high-tech ceramics (three years, \$2m). The Eureka secretariat is to stay small, too. The ministers agreed this week that Eureka could have an office in Brussels (appropriately, in the Rue Archimède) and a grand total of only seven professional staff to run it. The real work will have to be done by the companies.

FARMING BRIEF

What Africa can learn from India

Last year, thousands of Africans died because they did not have enough food, and famines caused another 10m to abandon their homes. The first response to such misery is to send emergency relief. The second must be to tackle the shortcomings of African farming.

Ways of improving third-world farming have become the development issue of 1986—and with good reason. Some countries farm much better than others, even when account is taken of climate, soil and other factors that influence farm output. Africa can learn much from India's relative success.

India's performance (this year it has a grain hillock) owes much to a national agricultural management programme called T&V. It bombards farmers with advice on how best to make use of new farming techniques. T&V stands for the Training and Visit System of Agricultural Extension, and it is backed by the World Bank.

The World Bank supports it (or something close to it) in 12 out of 16 states. In many areas, around 80% of farmers benefit. The system was founded by Mr Daniel Benor, an Israeli farmer who had seen the desert of his own country bloom. For India's agricultural administrators and its farmers, his name is synonymous with T&V. In Orissa state, one of India's poorest, the director of agriculture, Mr Shir Naik, is forever raising his eyes to heaven and proclaiming "Mr Benor, he is my second god." In Maharashtra state, farmers name their local T&V workers Benor.

The management system is based on simplicity, rigid schedules and a clear definition of roles. It transforms old agricultural extension systems, which date from the colonial era.

Extension, in agriculture, means a system of taking new plant technology (high-yield seeds, improved fertilisers, etc) and new farming methods from the laboratory to the farmer. It is a management system capable of transforming the farming of a country when it is organised properly.

In the old days, extension systems were often ill-defined, rambling, organisational structures, with poor discipline and little

supervision along the management chain. Often, local extension workers were too stretched. They were responsible for dealing out agricultural advice to farmers and also for offering other sorts of rural-development advice, from nutrition to women's workshops.

The main features of T&V are:

- Clearly defined hierarchy.
- Regular visits by T&V village extension workers (VEWs) to "contact farmers". The best of these are ordinary but intelligent farmers who can pass on knowledge to inquisitive and envious neighbours. The extension worker will visit a farm once every two weeks, always at the same time.



I like your yields, Mr Benor

- Regular training sessions for the VEW every fortnight.
- Clear messages sent to VEWs at each of these training sessions. These tell farmers what they should currently be doing, given local conditions and the time of year.
- Strict supervision at every level of the management pyramid.
- Two-way flows of information. Farmers tell VEWs about their problems, which are fed back through the system, via the training sessions to the research laboratory. For example, Indian villagers complained last year that the new high-yield rice recommended by extension workers had stems too short for thatching roofs. So VEWs sent the complaints through the system, and the boffins responded by coming up with high-yielding, long-

stemmed rice.

Like its founder, T&V is strictly practical in nature. At training sessions extension workers spend much time out in the field, getting their boots muddy and absorbing the messages of the week on the job. The benefits of this approach become clear when the VEW visits the farmer in the field. He knows more about farming than the farmer does. In the old days, he did not.

Farmers praise T&V. They talk of dramatic increases in yields, especially in the early years of the system. VEWs also feel that T&V helps them do a much better job. Under old systems they often operated with little training, and suffered from poor morale and low prestige.

The World Bank is happy enough with T&V in India. It is encouraging equivalent systems in other developing countries. But monitoring and measuring success rates is difficult. After all, good management is only part of

local co-operatives stopped paying them the old price of 110-120 rupees (about \$10) for a 75 kilogram bag. Farmers fear they will get no more than the government price of 95 rupees. In consequence, they cannot pay back bank loans taken out to buy fertiliser, or get new credit to pay for next year's crops. In short, the T&V worker has to have the backing of good marketing systems, if his advice is to make economic sense.

India is also keen on subsidising fertiliser prices, something the World Bank frowns upon. In the near-term, the job of the T&V extension officer is made easier if he can recommend increased use of artificially cheap fertiliser. In the longer-term, farmers get hooked on subsidies. In Maharashtra, for instance, local "Benors" are recommending that farmers use a newly-designed seed drill, which can be built by village carpenters. In some villages the carpenters are busy

better farming. New high-yield seed varieties are also important. Experience suggests that good marketing is essential, and that without it T&V, or any other extension system, has a near-impossible job. It is no good teaching farmers how to grow more of a staple crop when the government offers a below-cost price for it and also forbids farmers to sell to private traders. This often happens when a government is keen to keep down food prices for people in cities.

When the Indian government gave farmers an adequate price for the grain they grew, Indian farmers responded by growing lots of it. Growers of other crops are less content. Farmers in Orissa state complain that when advice from T&V helped them raise yields of groundnuts this year,

making them, but in others farmers say they will only invest in a seed drill if they are given a subsidy to do so. Never mind the price, so long as it is subsidised. Part of the T&V philosophy is that the system should be cheap and have a free-market bias. Subsidies undermine both aims.

In India, it is apparent that T&V has improved the lot of the farmer. He grows more food, and he makes more money. But what about the landless labourers he employs? The World Bank thinks that because T&V means higher yields, it means more demand for labour, and better pay. Snag: the benefits are not evenly distributed. In Orissa, women and children from the untouchable caste complain that they are paid five rupees a day, half the minimum wage. Local men fare better.

Their pay has gone up from five rupees to around 12 rupees for a day's work in the fields at harvest-time.

The increased well-being of farmers does not always flow through to more jobs and more money for their field hands. Inevitably, farmers use some of their higher profits to buy labour-saving machines. In Orissa a few weeks ago, landless labourers looked on anxiously as a farmer from their village demonstrated the new machine he was renting out to his neighbours. It was a small metal box painted blue, with a handle. When the handle was turned it could shell groundnuts ten times faster than local labourers.

Into Africa

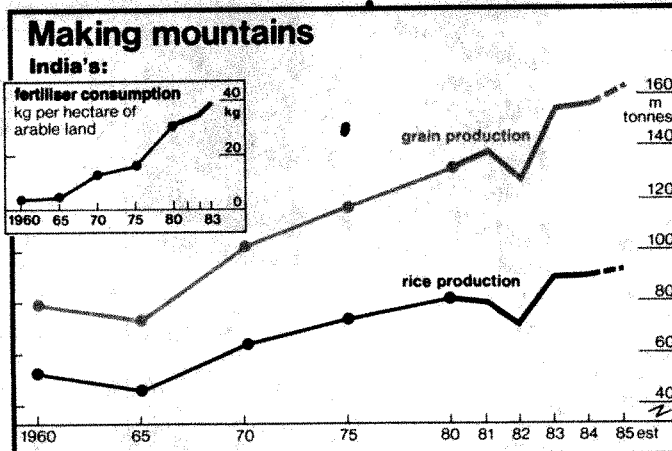
T&V has been adopted in 40 developing countries. The World Bank wants the next thrust to be in Africa, where agriculture in many countries is in disarray, and memories of famine are fresh. Kenya, which has done better than most, is seen as the best place in Africa for T&V to make a start.

Earlier this year, Mr Benor went there to assess the early operation of the system. Indian farm advisers who travelled with him say that Kenyan farmers were so keen on T&V that Kenya should not take long to catch up with India. In India conservative village hierarchies and caste inhibitions were cultural barriers to the early spread of the system.

"Contact farmers" in Kenya are already crowding about their yield increases after taking advice on new seed, spacing, pruning and weeding. Their neighbours are impressed and next year many of them are likely to become T&V converts.

The spread of T&V is based on spectacular results in the field and on convincing farmers that they too can do what their neighbours have done, even if they are short of money. If a farmer cannot afford enough fertiliser to follow the T&V recommendations throughout his farm, the VEW will advise him to take a small patch, try the system there, and use any profits to spread the system more widely on his farm each year. In Kenya, many farmers are still at the small patch stage.

The potential for T&V in Kenya is enormous. Most farmers have small holdings in densely-populated areas. This means new technology and methods spread quickly. Extension workers can cover hundreds of farming families without exhausting travel



schedules (although they moan about the lack of transport in hilly areas).

The World Bank also thinks Kenyan farming is well fitted to adopt T&V. There are, for example, no subsidies on fertilisers, and there are comparatively good purchasing and marketing systems for some crops, particularly tea.

But the World Bank and other donors to Kenya want the grain trade liberalised. The Cereals Marketing Board lacks cash. For much of this season, it has not had enough money to buy up maize from farmers. Most donors would like to see it become a buyer of last resort, and farmers given freedom to sell on the open

market. The government has given ground in allowing farmers to sell their own maize within districts. But inter-district trade still has to be handled by the board. Change is resisted by government officials who benefit from a complicated licensing system, and who are afraid that free trade in grain in Kenya would soon be controlled by the Asian business community. This, they feel, would be politically ticklish.

If farmers are going to benefit fully from T&V in Kenya, the coffee marketing system also needs reforming. Farmers pass their coffee to co-operatives which own the roasters. The Kenyan Farmers Co-operative Union then takes the coffee, and

passes it to the Coffee Board, which auctions it to licensed exporters. Payment is then passed back along the system, with everybody taking a slice, and the farmer receiving very little, very late. While marketing is so inefficient, the coffee farmer has little incentive to improve his methods. It is a pity. Kenya grows some of the world's best coffee.

Agricultural credit is also in a mess. Farmers complain about the inefficiency of the state's Agricultural Finance Corporation. The World Bank is considering by-passing the AFC by lending to specific local banks which can in turn lend directly to farmers, rather than channelling funds into the top of the credit pyramid, and letting them filter down.

More backbone

Kenya has learnt from the experience of other developing countries that T&V is best seen as part of a rounded approach that (a) secures supplies of better seeds, fertilisers and other inputs, (b) improves pricing systems, and (c) provides credit more efficiently. Its success elsewhere in Africa will depend on the same factors.

Agricultural progress is central to Kenya's economic development. The 600 aid agencies in the country have left it with several large projects on its hands which it cannot afford to maintain. It is spending one-third of public money on education, and the population is growing at 4% a year, one of the highest rates in the world. Government officials are starting to recognise that agriculture needs more attention if it is to feed a growing population, to stem an exodus from the land into the cities and to create the wealth needed to sustain other development projects. Mr Benor believes that all this is do-able if Africa can manage a green revolution on India's model.

Mr Benor will be pleased if they stick exactly to his way of doing things. He is a mercurial figure, sometimes behaving like a cheeky schoolboy and at other times like an autocratic schoolmaster. But his enthusiasm is infectious, and governments that have had dealings with him usually praise him. This is an opportune moment for his no-nonsense approach to farming to take root in Africa. There is an emerging awareness there that sound and market-driven farming must be the basis of African economic development. Both the Ivory Coast and Burkina Faso have already invited Mr Benor to pay them a visit.

Can better farming feed the world?

For Mr Benor's supporters at the World Bank, increasing farm output is the order of the day. They see a more efficient farming system as the essential first step toward alleviating hunger in a third-world country. But some of their more radical colleagues have a different starting point. Earlier this year they wrote a report called "Poverty and Hunger", with the provocative opening sentence: "The world has ample food."

The report argues that countries that do not produce all the food they need should be able to import it. Hunger results when they are too poor to do so. *Ipso facto*, lack of purchasing power, not lack of food, is the problem.

In 1980, according to the report, about 730m people in developing countries (excluding China) did not have enough income to obtain enough energy from their diet to allow them an active working life. It reckons that about two-thirds of the undernourished live in south Asia and one-fifth in sub-Saharan Africa. About four-fifths of them live in countries with very low average incomes.

Mr Benor is not put on the defensive by this. He thinks it is always a good first step to increase the incomes of farmers by making them more efficient. This works well in Kenya and India, where small farmers abound and rural poverty is still a big problem. But some of his supporters concede that whether increasing farm efficiency is the best way to feed hungry people is more questionable in places, notably in Latin America, where rich farmers have large landholdings and the poor are increasingly concentrated in cities. Then, they agree with the authors of "Poverty and Hunger" that the nub of the problem is income distribution rather than agricultural technique.

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Judging the judges

LAW'S EMPIRE. By Ronald Dworkin. Belknap Press. 470 pages. \$20. Available in Britain from Harvard University Press, £16.95.

When Mr Warren Burger, chief justice of America's Supreme Court, announced his retirement, American commentators had a field-day. His replacement as chief justice is to be Mr William Rehnquist, whose place on the court is to be taken by Mr Antonin Scalia. Both were dubbed "brilliant and conservative" or "brilliant but conservative". The new court was called "Rehnquist's court" or, sometimes, "Reagan's court". Even the law itself became, in one shrieking headline, "Reagan's law".

To most of those who ponder the rule of law in western democracies, such personalisation is troubling. The problem is not just that it can be misleading (as many commentators pointed out, the political balance of the Supreme Court remains unchanged). But it can make the law look like little more than a subdivision of politics. Many people think that the law has a purity of its own; it should not be contaminated by political decisions. In "Law's Empire", Mr Ronald Dworkin, the leading theorist of the place of law in a democracy, describes what he believes

the law is and what it should be.

Those, mainly Americans, who are becoming accustomed to the idea of a "politicised law" will, at first, be reassured. Mr Dworkin is explicit:

The most abstract and fundamental point of legal practice is to guide and constrain the power of government. Law insists that force should not be used or withheld... except as licensed or required by individual rights and responsibilities flowing from past political decisions about when collective force is justified.

Phooey, say those, mainly Europeans, who believe that the law should be above politics. Most law, they say, has nothing to do with government, force or even the courts. It is a facility that individuals or groups can use when they want to regulate their behaviour—say, when one person wants to buy a house from another. Most law, in the phrase of the English profession, is non-contentious. Even when it is contentious (meaning when it finds its way into a court), the law is neither political nor, except for the criminal law, dependent on force for its execution.

Such a view is too narrow. Questions about the law are raised and debated either within the confines of the courts, which are state institutions, or in the shadow of decisions made by the courts and other state institutions (like legislatures). In the West, state institutions are shaped by men and women who not only have personal preferences but want to see them more widely adopted. In this narrow sense, law is more than personal: it is political.

That being so, how should a judge decide a case? Hidden within a welter of philosophical argument, that is the simple question to which Mr Dworkin addresses himself in "Law's Empire". He discusses three possible answers. Judgments can be based on what happened in similar cases in the past. But the past, as Mr Dworkin has long argued, does not tell a judge what to do if he or she comes across a gap in the law. Or a judge might decide a case according to what he thinks should happen in future. But that arrogates to judges too much power. Even the American constitution does not grant judges such untrammelled power. Nor do even most interventionist lawyers believe that the Supreme Court's right to overturn statutes, established in 1803, should be used to formulate political policy openly.

Mr Dworkin therefore recommends a third answer, which he calls "law as integrity". A judge, he says, should decide a case in the light of principles that bind a community together. Judges should look backwards, to discover what those principles have been, and forwards, to find out how the consequences of any judgment would fit with those principles in the future.

This begs two questions. How are the principles to be discovered? And why should a judge be the right person to discover them? America has a legal document, the constitution, on which the search for principle can be based. Such documents exist in few other countries. Britain, for instance, has an unwritten constitution and a tradition of political fudge. How is a British judge to divine the principles upon which the relations between central and local government are based? Again, many Americans may agree that judges have a hot-line to the things that a society thinks define its sense of national identity. But there is no such consensus in most countries. Mr Dworkin, an American who is professor of

jurisprudence at Oxford University, too often looks on the world through American spectacles. "Law as integrity" is a theory of justice that will not easily cross the Atlantic.

Yet, for all this, Mr Dworkin's book remains of great importance. At a time when liberalism is in disarray, it resumes the search for a liberal theory that will explain why men and women choose to bind themselves together for mutual pro-

tection. The principles of its theory are community principles; their wellspring is a sense of fraternity. No assertion here that only the minimalist state is legitimate, no utilitarian conception of human experience as a void in which individuals maximise their personal preferences. Equally, Mr Dworkin will have no truck with those who have turned liberalism into a philosophy of the pork-barrel.

What it amounts to can be summed up

as an attempt to reconcile liberty and fraternity. Mr Dworkin has not succeeded in reconciling them (the best attempt to do that remains, 300 years on, John Locke's "Second Treatise on Government"). But for countries where injustice and illiberality are endemic, including the United States (ask America's homosexuals), Mr Dworkin provides a salient reminder of how important it is to aim for that reconciliation.

Odd men out

Jews, protestants and freemasons: for Charles Maurras, the guru of the extreme right in France before the second world war, they represented *l'anti France*. He might have added homosexuals, whose activities incense his remote successor as leader of the National Front. But long before Mr Jean-Marie Le Pen, the church had confused homosexuality and heresy. And that meant death at the stake.

The extreme penalty, as Mr Maurice Lever points out in *Les Bûchers de Sodome* (Fayard; FF95), was rarely applied. There were only 38 cases between 1317 and 1789, and these when homosexuality was associated with a crime like rape or murder. The letter of the law, in the *ancien régime*, meant less than social status. The police considered homosexuality to be something contracted, rather like a disease. Remove the possibility of contagion and *les infâmes* would likewise disappear. So the well-connected homosexual might simply be admonished and sent back to the bosom of his family. The less fortunate went to the Bastille.

Homosexuality was largely an urban phenomenon, and the material Mr Lever expertly deploys is overwhelmingly Parisian. His is a scholarly and compassionate book, a window on to a world of pimps, *provocateurs*, blackmailers and plain unfortunates who made up *la manchette*, the gay Paris of the *ancien régime*.

Marcel Proust, a homosexual who was also a Jew, thought that he benefited from being pushed to society's margins: this imposed on him a kind of self-awareness. Yet Proust was active in support of Captain Dreyfus; and the 1890s, the years of *l'affaire*, were the first of those exceptional moments in which Mr Eugen Weber thinks the "Jewish question" in France became something more than a purely parochial issue concerning the Jewish community alone. The second, of course, was the 1930s and the war years.

Mr Weber's urbane exercise in coat-tailing leads off the 15 essays that Mrs Frances Malino and Mr Bernard Wasserstein have collected in *The Jews in Modern France* (University of New England Press, \$30). Mr Weber comes near to denying the reality of anti-semitism (the

Jews were one minority among others, the French had other things to worry about). Mr Stephen Shuker, with some brio, sets out to explain it. The French, he says, not only accepted but welcomed Vichy's early anti-semitic legislation. The Jews, and particularly immigrants from central Europe in the 1930s, were seen not just as an economic threat but as a group which put the plight of European Jewry before the interests of



How the 16th-century treated protestants

their adopted country.

Other essayists, Messrs David Landes, and Zev Sternhell, take the opposite side. For Mr Sternhell, anti-semitism was not just a fact of political life in the half century from the 1880s, it was a crucial part of the political process. "If anti-semitism is the socialism of fools", Mr Weber remarks tartly, "it is well to remember the preponderant weight of fools in all societies." More important, it provided the means whereby the right could attract a mass audience.

Behind the issue lies the problem of a Jewish identity. Was the Jewish community's reaction to the Dreyfus case for so long muted because assimilation made it unwilling or unable to recognise *l'affaire* specifically as a Jewish issue? The same question may be asked, with even more force, about the Vichy years. Was assimilation possible or desirable? The French might consider the Jews to have a dual loyalty: *la France, mais...* On the other hand, the Jews might see assimila-

tion as a form of cultural imperialism: "the final solution", in a bitter comment, "only without Eichmann".

The essays are disappointing on the most significant event in recent French Jewish history, the influx of North African Jews since the 1950s. This has doubled the size of the community, to around 700,000. It has also given French Judaism a new and more aggressive image. These are Jews who publicly assert their Jewishness, their right to be different.

Mr Jean Baubérot, in *Le Retour des Huguenots* (Cerf; FF120), and Mr André Encrevé in *Les Protestants en France* (Stock; FF98) share the concern that, by an irony of history, French protestantism risks losing its difference.

The Concordat of 1802 gave the protestants back the freedom of worship they had lost with the revocation of the Edict of Nantes in 1685. But it neither gave them full equality nor did it restore their traditional organisation. In other respects, the early years of the Third Republic promised well. Protestants and republicans worked together to introduce lay schooling, and although protestant leaders were lukewarm about the separation of church and state in 1905, they assumed that at the very least it would work to their benefit.

Almost the opposite happened. Separation symbolised what Mr Baubérot calls "the second threshold of secularisation". Religion not only became a private matter, to which the state was indifferent; it risked becoming irrelevant to society as well. This virtually condemned the protestants to remaining a minority church.

Mr Baubérot treats his subject thematically, emphasising protestantism as a "lay religion". Mr Encrevé provides an admirably clear chronological survey. Both accept the existence of a specifically protestant sensibility, even in politics. Both think this sensibility is being blunted. A religion that has, historically, been part of many oppositions no longer has an opponent.

Perhaps this is the penalty of success. Sexual liberation, Mr Lever writes, has merely imprisoned French homosexuals in another ghetto. The French Revolution, Mr Landes suggests, "emancipated the Jews, but not Jewishness". Is protestantism, Mr Baubérot wonders, moving towards an *auto-révocation*?

Jacques Chirac

Call the knaves,
Jacques

LES CHIRAQUIENS. By Thierry Desjardins. *La Table Ronde*. FFr 95.
JACQUES CHIRAC OU LES PASSIONS DU POUVOIR. By Maurice Szafran. *Grasset*. FFr 95.

There is a Chirac legend. It concerns an intensely political animal, over-impulsive and under-principled, whose only lasting loyalty has been to his own career. Mr Thierry Desjardins may insist that his cronies adore him but his book shows how often they have disapproved of his actions. Mr Maurice Szafran was told by a Gaullist minister that Mr Chirac had mainly scored a lot of political goals—except that they have been own goals.

The record—and, since Mr Chirac remains obstinately reticent about his private life, that is all there is to go on—bears out the legend. When Georges Pompidou died in 1974, Mr Chirac, Pompidou's favourite son and his minister of the interior, sabotaged the official Gaullist candidature, ensured that Mr Valéry Giscard d'Estaing would become president, and reaped his reward by being appointed prime minister.

This first experience of cohabitation ended with Mr Chirac slamming the door of the prime minister's palace at Hôtel Matignon. Seven years later, however, Mr Chirac repeated his coup. On the advice of Mr Edouard Balladur, now minister of finance, he did not stand in the 1981 presidential election. Mr Giscard d'Estaing, the argument ran, was bound to lose and Mr Chirac, if he stood

as a rival candidate, would be blamed for the defeat. This year, by one of those pleasing paradoxes of the Fifth Republic, it was President François Mitterrand, head of state and leader of the opposition, who chose Mr Chirac as head of government—and so consecrated him leader of the right.

Presidential candidates do need not just a national reputation (which Mr Chirac has possessed since the 1960s) but a party, a power base. Mr Chirac is a Gaullist by calculation: miscalculation, perhaps, since he opposed de Gaulle's acceptance of Algeria's independence. Neither this nor his irresistible rise under Georges Pompidou endeared him to the barons who ran the Gaullist party in the 1970s. So Mr Chirac achieved his aim of saving the Gaullist party by taking it over: in 1976, he founded the *Rassemblement pour la République*, imbuing it with his own brand of Gaullism.

Just how elastic that term has become can be seen from Mr Desjardins's book. He sees *les Chiraquiens* as a homogenous breed, born, as if by parthenogenesis, in 1976. Yet the evidence of his own book shows how varied Mr Chirac's followers are. His ministers, for example, range from the interior minister, Mr Charles Pasqua, a veteran of the *maquis* and of de Gaulle's Gaullism, to the minister of social affairs and employment, Mr Philippe Sequin, a technocrat and a good bet for the 1995 presidential election.

Mr Desjardins's unreliable guide frequently attributes phrases like "creeping socialism" to *les Chiraquiens* to explain their hostility to the platforms of centre-right politicians like Mr Jacques Chabandemas or Mr Giscard d'Estaing. Apart from this, and a distaste for the extreme-right National Front (whose constituency Mr Chirac might nevertheless wish to

recapture), there is little indication, in either book, of any "Chirac platform". References to Gaullism hardly help, except to bear out the General's probably apocryphal saying that when he was dead, they would be selling him off like nougat. As Mr Michel Debré, one of the last of the General's Old Believers, told Mr Desjardins, if Gaullism means an independent foreign policy and nuclear deterrent then Mr François Mitterrand is the greatest Gaullist of them all.

BBC

Poppeacock

THE LAST DAYS OF THE BEEB. By Michael Leapman. *Allen & Unwin*. 299 pages. £12.95.

It is fitting that this silly book should have such a silly title. These are not the last days of the BBC, nor does Mr Leapman think they are, as some apologetic final remarks show. But he does think that the BBC—which started in the 1920s as a club of radio-set manufacturers and is now the world's biggest producer of television programmes—has been in decline for 20 years. He also thinks that the BBC is likely to survive only in truncated form.

Mr Leapman does not argue convincingly that the BBC is in decline and his prognosis that it is about to fall is probably wrong, too. He shows how the corporation has become more professional, explains the government's recent ham-fisted attempts to influence its output and recounts all the behind-the-scenes bickering which is so beloved of the industry. In so doing, he overestimates the importance of nearly every event he reports.

True, the prime minister has installed a Thatcherite chairman (Mr Stuart Young, brother of a cabinet minister) and vice chairman on the board of governors. But Mr Harold (now Lord) Wilson, who fell out of love with the BBC at least as often as Mrs Thatcher does, tried a similar trick in 1967. Neither succeeded in stuffing the BBC into the government's pocket. Last year, the then home secretary, Mr Leon Brittan, tried to ban a programme about Northern Ireland. He failed.

The last straw, in Mr Leapman's view, was the appointment in 1985 of a committee chaired by Mr Alan Peacock to investigate new methods of financing the BBC. (The committee includes Mr Leon Brittan's brother, Sam: Britain's great and good remain as close-knit as ever). The Peacock committee was set up as a result of earnest, if premature, questioning of the BBC's role in the age of cable and satellite television, backed up by pressure from advertising agencies which wanted



Always eyeing up new opportunities

BOOKS AND ARTS

the BBC to show commercials (Mr Tony Benn, as postmaster general, had floated that idea 20 years earlier). The committee's recommendations do not sound like the death-knell for the BBC. It is likely to remain the biggest producer of radio and television programmes for decades. Its monopoly was lost long ago.

Mr Leapman is a former newspaper diarist and it shows. He sees petty power struggles everywhere and his myopic sen-

timentality encourages him to think that every change is for the worse. The heart of his book is a series of interviews, reproduced almost verbatim and illustrated by some flat descriptions of the weather. The excuse for this trivia is Mr Leapman's belief that "examination of how people behave at critical times, and why, provides insights into them and the institutions to which they belong". His book is a convincing refutation of that thesis.

ARTS

Song of Lebanon

If a nation's soul lies in its music (and why else do politicians commission national anthems?), then Lebanon's soul lies in Fairuz. She is the Arab world's most popular singer and—though little-known elsewhere—among the world's most highly paid

Hollow-cheeked and waif-like, Fairuz sings of an idyllic Lebanon of villages, streams and mountains. But the haunting edge of her voice underlines that country's tragedy. *Sanari'u yawman* ("We will return one day") used to be sung for the Palestinians. Now she sings it for all Lebanon's diaspora, for Christian and Muslim, factional zealot and political agnostic.

Since the death of Egypt's Umm Kalthoum, Fairuz has remained unchallenged as the Arab world's leading singer. Where Umm Kalthoum exemplified a classical tradition going back to the original *qasida* (odes), Fairuz is eclectic in a way that is peculiarly Lebanese. She starts with the vernacular of Lebanese folklore and then embraces the cosmopolitan strains—both European and Armenian—of Lebanon's cities. The result is a repertoire as accessible in the Middle East as the Beatles' in the West.

This accessibility is highly prized. When Fairuz filled London's Royal Festival Hall at a recent concert, the box-office take of £140,000 broke Frank Sinatra's record by £60,000 and tickets changed hands for thousands of pounds, even though the Lebanese musicians had been kept from rehearsals by Beirut's violence, and the extra British musicians hired for the event had seen the score only days beforehand.

How far can such accessibility go before the music becomes rootless? The tension between the familiar and the innovative in Fairuz's repertoire is becoming uncomfortable. Lebanese, and

other Arab, émigrés have grown up with the tunes of Fairuz's ex-husband, Assi Rahbani (who died in Beirut in mid-June) and the lyrics of his brother Mansour. Fairuz also sings the music of her son, Ziad Rahbani. The Rahbani brothers took the myriad sources of Arabic music—from Lebanon's Christian liturgy to the *muwashshah* of medieval Spain (from which today's flamenco music derives)—and expanded them. In contrast, Ziad, now captivated by modern jazz, wants to



Fairuz Fairuz

plant foreign seed in Lebanon's culture. Fairuz sings the plaintive *Khalik bil-bai* ("Stay at home") with an orchestration and phrasing reminiscent of Ella Fitzgerald.

The hybrid has yet to flourish, but Fairuz commands her audience regardless of the idiom. In the end, it is pointless trying to define her by the music. Like Billie Holiday, she transcends her material. She stands alone in the spotlight, the only movement an occasional, abrupt jerk of the right arm. And a deep, velvety voice with a spell all its own.

All's well that ends well

"How poor are they that have not patience", cried Iago. When the American actor Sam Wanamaker played the part in 1969 to Paul Robeson's Othello, he must have taken these lines to heart. Seventeen years, a legal dispute and a £7.2m out-of-court settlement later, Mr Wanamaker's Shakespeare Globe Trust has been given a 125-year lease on land close to the Bard's original place of work in London. The rebuilding of a new 1,500-seat Globe Theatre can, at last, get under way.

Mr Wanamaker has flown to America to raise the £12m needed for the construction. But it is not just money that he will have to bring back from across the Atlantic. It is expertise too. America is far ahead of Britain—indeed of any other country—in authentic performances of Shakespeare. There are Shakespeare Globe Centres (ie, fundraising organisations) in New York, Chicago, Houston and Los Angeles; another

is being set up in Denver. America runs over 50 Shakespeare festivals a year, many in mock-Tudor theatres. Of these, the oldest is San Diego's Old Globe; the biggest the 45-year-old complex in Ashland, Oregon, which has three stages; the most expensive probably the \$25m theatre in Anniston, Alabama, but the finest (at least in Sam Wanamaker's opinion), the open-air structure at Cedar City, Utah.

No surprise then, that many academics from North America have been advising an architect, Mr Theo Crosby, how to design the most Globe-like theatre possible—and still meet the fire regulations (the first Globe theatre burned to the ground in 1613). Mr Richard Hosley of the University of Arizona, for instance, made the first drawings. Mr John Orrel, a British academic working in Alberta, did the research on the dimensions, proportions and orientation of the original. O, brave new world . . .

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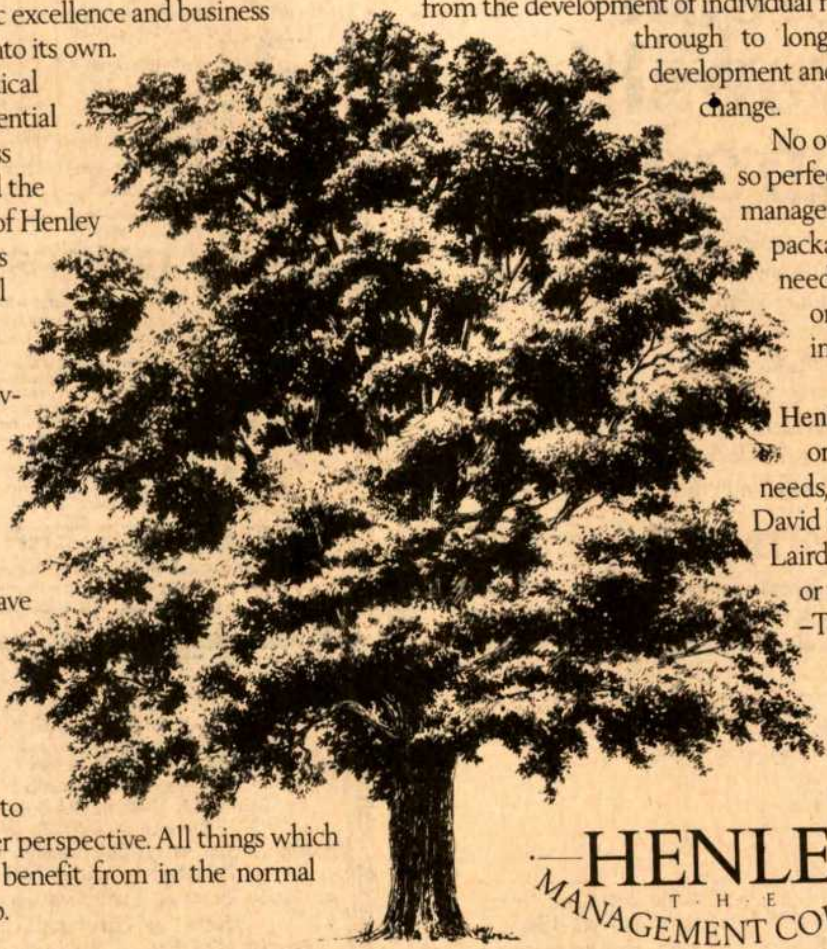
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Male or female candidates should submit in confidence a comprehensive C.V. or telephone for a Personal History Form to I.L. Duff, Hoggett Bowers plc, 1/2 Hanover Street, LONDON, W1R 9WB, 01-734 6852, quoting Ref:18122/E.

APPOINTMENTS

University of Newcastle Upon Tyne/ Newcastle Upon Tyne Polytechnic

Department of Economics

Applications are invited for the post of RESEARCH ASSOCIATE to work on a project on the Econometric Analysis of the Growth in Numbers Claiming Invalidity Benefit undertaken by the Department of Economics (University) and School of Economics (Polytechnic) and funded by DHSS, starting in September 1986 for a period of 18 months.

Applicants should have a postgraduate qualification in Econometrics/Economics, and previous experience in applied research would be an advantage.

Starting salary will be up to £9,880 per annum on the Range 1A scale: £8,020-£12,780 per annum according to qualifications and experience.

Further particulars may be obtained from Professor A. J. Hughes Hallett, Department of Economics, University of Newcastle upon Tyne NE1 7RU, with whom applications (3 copies) with curriculum vitae and the names and addresses of three referees, should be sent not later than 30 July 1986. Informal inquiries may be made in the first instance to Mr I. Molho in the Department. Tel: 091-232 8511, ext 3586 or Phil Holmes in the School of Economics, Newcastle upon Tyne Polytechnic. Tel: 091-232 6002, ext 3911.

AGRICULTURAL ECONOMIST

The International Laboratory for Research on Animal Diseases (ILRAD), Nairobi, Kenya, is an internationally funded, major institution with the mandate of developing improved methods of control for important diseases of livestock. At present the diseases under study are trypanosomiasis and theileriosis. The multidisciplinary research programme includes biochemistry, molecular biology, immunology, cell biology, pathology, parasitology, electron microscopy and entomology with appropriate supporting units. Applications are invited for the position of Agricultural Economist (Ref: SC/86/13) to join a newly established unit to assess the factors related to the control of animal diseases and to determine the economic, social and environmental implications of improved disease control.

Applicants will have a doctorate in Agricultural Economics and either substantial experience in livestock development or tropical African agriculture. Applicants must have the ability to extrapolate farm level data to regional and sector aggregates. Strong reference will be given to applicants with competence in policy analysis. Additional qualifications include exposure to farm surveys in developing countries, experience of multidisciplinary research with social and biological scientists and the use of computer systems. Fluency in French will be advantageous.

This is an international staff position and the salary will be paid in US dollars. Initial salary will be determined by qualification and experience. Moving, housing, commutation and education allowances are paid and there are medical and retirement benefits. Applicants should include current curriculum vitae and the names and addresses of three referees. Applications, citing the position reference number, should be sent by 15 August 1986 to:

The Chief Personnel Officer
ILRAD
PO Box 30709
Nairobi, Kenya

Trent Polytechnic

DEPARTMENT OF BUSINESS AND MANAGEMENT STUDIES

RESEARCH ASSISTANT/ DEMONSTRATOR IN EUROPEAN BUSINESS RESEARCH

(£6,324-£7,122 per annum, pay award pending)

Applications are invited from graduates with a good honours degree in economics, management, business or international studies to join a project on "Processes of Industrial Change" in selected manufacturing sectors in Europe.

The successful candidate would be expected to register for a higher degree.

Further details and forms of application are available from the Staff Officer, Trent Polytechnic, Burton Street, Nottingham NG1 4BU. Closing date 1 August 1986. Please quote Post Ref No B0314.

University of Canterbury New Zealand

SENIOR LECTURER OR LECTURER IN BUSINESS ADMINISTRATION (Production Management or Organisational Behaviour)

Applications are invited for a position, as above, in the Department of Business Administration. Applicants should have a PhD degree or an equivalent research record. Preference will be given to candidates with a capability and research interest in production management or organisational behaviour. The appointee will be expected to teach in the undergraduate (BCom) and graduate (MBA, MCom and PhD) programmes.

The salary for Senior Lecturers is on a scale from NZ\$37,000 to \$47,000 per annum and for Lecturers is on a scale from NZ\$28,000 to \$35,000 per annum.

Further particulars and conditions of appointment may be obtained from the Association of Commonwealth Universities (Appts), 36 Gordon Square, London WC1H 0PF.

Applications close with the Registrar, University of Canterbury, Private Bag, Christchurch, New Zealand, on 29 August 1986.

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University College, Oxford

LECTURERSHIP IN ECONOMICS

The College proposes to appoint a lecturer for a fixed term of one year from 1 October 1986 at a stipend in the range of £4,000-£7,500 plus certain allowances.

Applications with a curriculum vitae, including areas of Economics which can be taught, and two confidential references, should be sent not later than 16 July 1986 to the Senior Tutor, University College, Oxford OX1 4BH, from whom further particulars may be obtained.

University of the West Indies

Cave Hill Campus, Barbados

Applications are invited for the following posts:

PROFESSOR OF MANAGEMENT STUDIES

Faculty of Social Sciences

Applicants should have competence in Quantitative Methods and Information Systems and/or Marketing. Duties to be assumed by 1 September 1986 or as soon as possible thereafter.

PROFESSOR/SENIOR LECTURER IN ECONOMICS

Faculty of Social Sciences

Applicants should have competence in Quantitative Areas of Economics and a strong research and publication record. Duties to be assumed by 1 October 1986 or as soon as possible thereafter.

Salary scales (under review) Professor: in the range BDS\$58,644-72,144 per annum. Senior Lecturer: BDS\$41,976 x 1,368-50,184 x 1,464-54,576 (B) x 1,464-57,504 per annum. Up to five full economy class passages plus baggage allowance of US\$1,200 on appointment and normal termination. Special allowance up to US\$400 for shipment of academic books and teaching/research equipment on appointment. Unfurnished accommodation at 10% of basic salary; or optional housing allowance of 20% of basic salary to staff making own housing arrangements. UWI contribution of equivalent of 10% of basic salary to Superannuation Scheme. Annual Study and Travel Grant for self, spouse and up to three children. Book Grant up to BDS\$600 per annum. Detailed applications (three copies) giving full particulars of qualifications and experience, date of birth, marital status and the names and addresses of three referees should be sent as soon as possible to the Campus Registrar, University of the West Indies, PO Box 64, Bridgetown, Barbados. The University will send further particulars for these posts to all applicants. These particulars may also be obtained from the Association of Commonwealth Universities (Appts), John Foster House, 36 Gordon Square, London WC1H 0PF.

University of Nottingham

Department of Economics

A PART-TIME TUTORIAL ASSISTANTSHIP

In Economics is available for the demic year 1986/87 with a possible extension. Applications are invited recently qualified graduates with a or II(i) single or joint honours degree either Economics or Econometrics Agricultural Economics or a recently qualified Masters student in these subject areas or from a PhD candidate. The person appointed would be expected to either register for a part higher degree by research at Nottingham or to be registered for (or w up) a higher degree by research at another institution. Salary pro rata to 0.6 depending on contract £7 per annum (under review).

Applicants should write, giving names of two referees, to Professor J. Rayner, Department of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD. Tel: 506101, ext 3100.

University of Oxford

UNIVERSITY LECTURESHIP IN AGRICULTURAL ECONOMICS

The University proposes to appoint a University Lecturer in Agricultural Economics, with a primary interest in cultural development, from 1 January 1987 or sooner if possible. The lectureship may be held in conjunction with a Research Fellowship at Wolfson College. The stipend will be according to the scale £8,020 to £16,760 per annum. The lecturer will be required to become a member of the University Superannuation Scheme (USS) or at present a member of FSSU.

Applications (ten typed copies, or in the case of overseas applicants need send only one typed copy) to be sent with the names of three referees should be sent to Mr G. H. P. Institute of Agricultural Economics, Clarendon Street, Oxford OX1 2JD, so as to arrive not later than 12 November 1986. Separate applications not necessary for the associated lectureship post. The choice of the appointee will not necessarily be limited to those who apply.

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DEPARTMENT OF ECONOMICS LECTURESHIP

Applicants should possess a higher degree in Economics or have comparable experience, and be well-versed in the main branches of modern Economics. Research potential is important, and proven ability will be regarded favourably when applications are considered.

The appointee will be expected to teach in core undergraduate courses in economic theory and policy, and for this purpose experience in lecturing before large classes would be an advantage. Applicants with special interests in any areas of Economics excluding Economic History, Agricultural Economics or Econometrics (which are taught in separate departments) are welcomed, and opportunities to teach in specialist areas are generally available at advanced undergraduate, honours or masters levels. Research is strongly encouraged, and appropriate opportunities and facilities for this are available.

Informal inquiries to Dr J. Baldry telephone ISD 61 67 73 2460.

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Applications including the names and addresses of three referees and stating the position number should be sent to the Staff Officer, University of New England, Armidale, NSW 2351, prior to the closing date. Applicants should forward a copy of this advertisement to their referees and ask them to send their reports direct to the Staff Officer, Mr B. G. Turner, marking their envelopes 'Private and Confidential' and quoting the position number, before the above closing date so as to expedite the appointment process.

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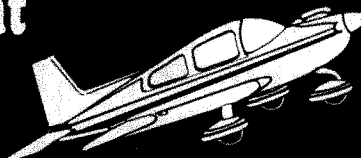
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ECONOMIC AND FINANCIAL INDICATORS 1

OUTPUT, DEMAND AND JOBS Japan's industrial production rose 0.4% in May, having fallen in April; output was 1.8% lower than it had been in May 1985. In February, the output of Spanish industry was 4.7% higher than it had been a year earlier. Japan's unemployment fell in May to 2.7% of the workforce, but remained higher than it had been 12 months earlier, one of five countries in our table where jobless rates have risen.

	change at annual rate		GNP		retail sales		unemployment % rate	
	3 mths†	1 year	3 mths†	1 year	3 mths†	1 year	latest	year ago
Australia	+ 2.4	+ 3.7 (2)	- 0.5	+ 4.7 (3)	+ 7.4	+ 5.6 (9)	7.8 (5)	8.4
Belgium	+ 4.0	+ 3.2 (2)	na	na	+ 6.2	+ 5.8 (1)†	11.7 (5)*	12.8
Canada	- 0.1	+ 3.6 (3)	+ 5.4	+ 4.9 (12)	- 2.2	+ 3.4 (3)	9.6 (5)	10.4
France	+ 2.0	+ 3.8 (4)	+ 1.2	+ 2.8 (3)	+ 0.6	+ 0.1 (3)	10.0 (5)*	9.8
Germany	- 3.7	+ 2.8 (4)	- 6.5	+ 1.6 (3)	+ 7.0	+ 5.2 (4)	9.0 (5)	9.4
Holland	+ 5.2	+ 5.9 (4)	+ 0.8	+ 2.0 (12)	- 7.8	+ 1.7 (4)†	14.6 (5)	15.4
Italy	+ 12.8	+ 2.6 (3)	+ 6.1	+ 3.0 (3)	+ 15.6	+ 2.2 (12)†	13.9 (5)*	12.6
Japan	+ 0.5	- 1.8 (5)	- 2.0	+ 3.2 (3)	+ 28.0	+ 5.4 (3)	2.7 (5)	2.5
Spain	- 6.5	+ 4.7 (2)	na	na	+ 28.7	nil (3)†	20.5 (5)*	20.1
Sweden	+ 8.6	- 0.9 (4)	+ 6.2	+ 3.2 (3)	- 3.8	+ 1.9 (12)†	2.3 (5)*	2.6
Switzerland	+ 8.1	+ 6.1 (12)	+ 5.3	+ 5.6 (12)	+ 12.6	+ 3.8 (2)†	0.8 (5)*	1.0
UK	+ 5.4	+ 1.6 (4)	+ 2.9	+ 2.5 (3)	+ 7.0	+ 2.7 (5)	13.3 (5)	12.9
USA	- 5.1	+ 0.1 (5)	+ 2.9	+ 1.9 (3)	+ 7.9	+ 3.8 (4)	7.3 (5)	7.3

*Value index deflated by CPI.

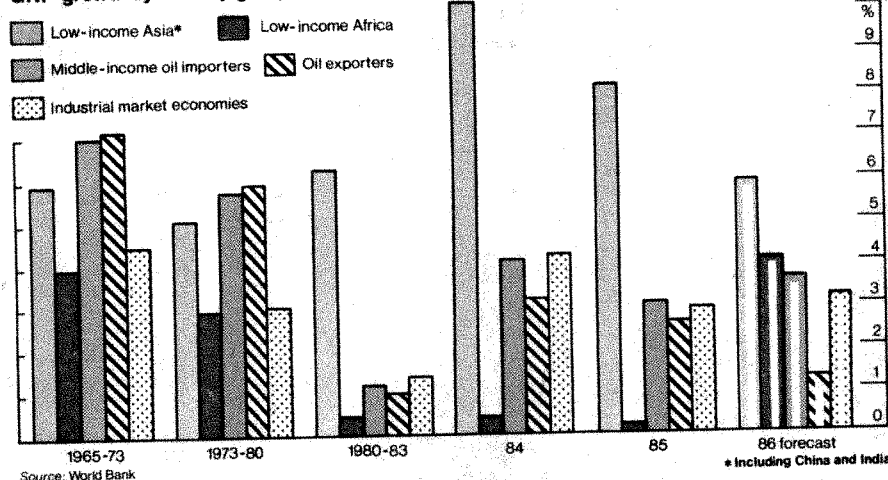
PRICES AND WAGES In June, for the third month running, consumer prices in West Germany were lower than they had been a year before. Japanese consumer prices rose only 0.5% in the year to May. Wholesale prices have been falling in Holland for nine months: in March, the year-on-year rate was down 5.5%. Dutch wages rose 1.4% in the year to May; Spanish wages were up 10% in the year to April.

	change at annual rate		wholesale prices*		wages/earnings†	
	3 mths†	1 year	3 mths†	1 year	3 mths†	1 year
Australia	+ 2.3	+ 9.2 (2)	+ 7.3	+ 7.9 (2)	+ 9.9	+ 7.1 (2)
Belgium	+ 0.4	+ 1.1 (5)	- 4.4	- 3.9 (1)	+ 16.0	+ 3.0 (12)*
Canada	+ 3.6	+ 4.1 (5)	+ 0.9	+ 1.2 (4)	+ 3.0	+ 3.6 (3)*
France	+ 1.6	+ 2.3 (5)	- 2.1	- 0.3 (3)	+ 5.2	+ 3.9 (1)
Germany	- 0.9	- 0.2 (6)	- 5.9	- 2.7 (5)	+ 6.1	+ 4.0 (4)
Holland	+ 1.3	+ 0.5 (5)	- 7.3	- 5.5 (3)	+ 1.3	+ 1.4 (5)
Italy	+ 6.5	+ 6.6 (4)	- 1.9	+ 0.3 (3)	+ 2.3	+ 6.0 (2)*
Japan	- 1.8	+ 0.5 (5)	- 4.4	- 9.8 (5)	+ 4.4	+ 3.0 (4)
Spain	+ 7.6	+ 7.7 (5)	+ 0.2	+ 3.0 (2)	+ 13.4	+ 10.0 (4)
Sweden	+ 2.6	+ 3.4 (5)	+ 0.5	nil (4)	+ 2.7	+ 1.9 (4)*
Switzerland	- 0.1	+ 0.7 (5)	- 7.0	- 4.0 (5)	- 0.4	+ 3.1 (12)*
UK	+ 5.2	+ 2.8 (5)	+ 7.4	+ 4.5 (5)	+ 11.6	+ 7.5 (4)
USA	- 2.3	+ 1.6 (5)	- 9.6	- 2.0 (5)	+ 1.4	+ 2.7 (5)

Hourly wage rates in manufacturing except Australia, weekly earnings; Japan, and Switzerland, monthly earnings; Belgium, Canada, Sweden and USA, hourly earnings; UK, monthly earnings for all employees.

FOCUS: GROWTH This year, according to projections by the World Bank, GNP growth in low-income Africa will be higher than that in any other group of countries except low-income Asia. It will be the first time since 1965 that Africa has outstripped middle-income oil importers, oil exporters or industrial economies: after last year's misery (when GNP rose only 0.8%, less than population growth), recovery should be strong because agriculture is reviving after the drought. If fast growth continues in low-income Asia, it will be largely thanks to India and China. As a whole, developing countries may grow by 4% if those two giants are included; if they are not, projected growth slows to 3-3½%.

GNP growth by country group annual % change



Source: World Bank

*Including China and India

Footnotes applicable to all tables. All figures seasonally adjusted except where otherwise stated. *Not seas. adj. †Average of latest 3 months compared with average of previous 3 months, at annual rate. n.a. Not available. Small figures in brackets denote month of indicator.

THE ECONOMIST COMMODITY PRICE INDEX

The troubled American copper industry is concluding new three-year labour contracts. Newmont has reached agreement with the unions to cut labour costs by 20% to \$15.48 an hour (the company was originally looking for cuts of about one-third). Other companies are expected to reach similar agreements. This is a far cry from the 1980 pay round when workers won substantial pay increases after a strike; copper then fetched \$1 a lb. Now the mines are running at half capacity, unemployment is high and copper has slipped below 60 cents a lb—less than costs in most North American mines.

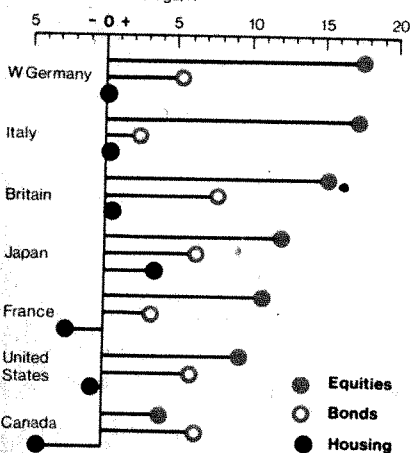
	1980=100		% change on	
	June 24	July 1 (provisional)	one month	one year
Dollar index				
All items	77.1	76.2	- 4.0	+ 4.8
Food	85.0	83.3	- 7.7	+ 10.4
Industrial				
All	69.0	68.5	- 0.7	- 1.9
Nfa*	74.9	73.5	- 2.3	- 1.5
Metals	64.3	64.4	+ 0.3	- 2.2
Sterling index				
All items	118.2	114.2	- 7.5	- 11.8
Food	130.2	124.8	- 11.0	- 7.1
Industrial				
All	105.6	102.7	- 4.3	- 17.4
Nfa*	114.7	110.2	- 5.9	- 17.1
Metals	98.5	96.6	- 3.3	- 17.6
SDR index				
All items	86.0	83.8	- 6.6	- 11.4
Food	94.7	91.6	- 10.2	- 6.7
Industrials				
All	76.9	75.4	- 3.5	- 17.1
Nfa*	83.5	80.9	- 5.0	- 16.8
Metals	71.7	70.9	- 2.4	- 17.3
Gold				
\$ per oz	343.25	345.00	+ 1.0	+ 11.5
Crude oil (spot)				
North Sea Brent	11.30	10.93	- 13.9	- 59.3
\$ per barrel				

*Non-food agriculturals.

ECONOMIC AND FINANCIAL INDICATORS

FOCUS: ASSETS Property is often regarded, especially in Britain, as a safe and profitable investment. But in the seven largest capitalist economies, the real return on housing has proved, on average, to be lower than the real returns on either equities or bonds. Indeed, in France, America and Canada, the average real rate of return was negative in 1980-85. House prices vary sharply between regions so that booming prices in London may be offset by falling prices in industrially-depressed north England. In all countries except Canada, equities proved the most profitable form of investment during the six years—helped by sharp increases in 1985. The average real return on equities was 63% last year in West Germany, 103% in Italy and 25% in America.

Real returns on assets
1980-85 annual average, %



Source: BIS

WORLD BOURSES Wall Street went through the 1900 barrier for the first time hoping that the Fed would cut the discount rate. Four other bourses—in Japan, Canada, Sweden and Belgium—came close to record highs.

Stock price indices

	July 1	1986 high	1986 low	one week	one year	% Change on record high	31/12/85 in local currency	ten
* June 30								
Australia	1175.3	1247.0	1010.8	- 2.5	+ 36.5	- 5.7	+ 17.1	+ 1
Belgium	3678.2	3700.2	2766.9	+ 0.6	+ 58.7	- 0.6	+ 25.0	+ 4
Canada	3085.5*	3129.1	2754.0	+ 0.9	+ 13.9	- 1.4	+ 6.4	+ 1
France	354.9	411.3	267.8	+ 2.4	+ 55.0	-13.7	+ 33.5	+ 4
W. Germany	1894.2	2278.8	1863.6	- 3.1	+ 32.2	-16.9	- 2.9	+ 5
Holland	286.9	292.3	240.4	- 0.7	+ 35.9	- 1.9	+ 12.2	+ 2
Hongkong	1733.5	1865.7	1559.9	- 1.7	+ 10.0	- 7.1	- 1.1	- 1
Italy	682.3	908.2	454.7	+ 1.1	+102.9	-24.9	+ 49.3	+ 6
Japan	17622.7	17654.2	12891.5	+ 1.6	+ 37.3	- 0.2	+ 34.7	+ 6
Singapore	745.9	776.7	563.3	- 2.6	- 6.0	-30.4	+ 20.3	+ 15
South Africa	1173.5	1203.1	1069.3	+ 0.1	+ 20.5	- 2.5	+ 9.9	+ 13
Spain	170.8	194.8	100.8	- 4.2	+115.5	-12.3	+ 70.8	+ 88
Sweden	2431.7	2451.8	1729.6	+ 1.2	+ 85.4	- 0.8	+ 39.9	+ 49
Switzerland	557.9	625.5	554.7	- 0.5	+ 26.3	-10.8	- 5.1	+ 1
UK	1373.7	1425.9	1094.3	+ 2.6	+ 44.3	- 3.7	+ 21.4	+ 1
USA	1903.5	1930.5	1502.3	+ 1.5	+ 43.9	nil	+ 23.1	+ 23

MONEY AND INTEREST RATES Bond yields slipped in most big countries; so did short-term Eurodollar rates. Australia's narrow measure of money supply fell 0.5% in the 12 months to May; but its broad measure rose 15%.

	Money supply		Interest rates % p.a. (Tuesday, except bonds which are previous Friday)		Bond yields		Eurocurrency	
	% rise on year ago	Narrow Broad†	Overnight 3 months	Commercial banks	Gov't Deposits	Corporate Deposits	3 months	Bonds
Australia	- 0.5	+15.0 (5)	12.50	14.90	17.00	14.75	13.07	14.78
Belgium	+ 3.8	+ 7.3 (12)	6.65	7.30	10.50	6.90	8.60	9.70
Canada	+ 3.2	+ 4.7 (5)	8.63	8.63	10.25	8.63	9.45	10.18
France	+ 4.4	+ 5.6 (12)	7.25	7.25	9.60	7.25	7.95	9.36
W. Germany	+10.3	+ 7.6 (5)	4.00	4.60	7.00	4.19	6.30	6.05
Holland	+ 5.6	+ 5.2 (3)	6.38	6.13	8.00	6.13	6.38	6.67
Italy	+10.4	+11.0 (12)	12.38	12.13	14.63	11.50	11.11	9.77
Japan	+ 4.4	+ 7.8 (4)	4.44	4.64	4.13	2.13	5.15	6.17
Spain	+15.5	+13.1 (4)	12.12	12.58	15.00	6.50	11.56	13.23
Sweden	na	+ 3.0 (3)	10.00	10.10	12.75	9.78	9.86	11.04
Switzerland	+ 4.1	+ 4.9 (3)	2.89	5.00	6.75	4.00	4.46	4.84
UK	+22.0	+19.5 (5)	11.25	9.88	11.00	9.69	9.31	10.29
USA	+13.1	+ 7.7 (5)	7.00	6.25	8.50	6.30	7.28	9.00

Other key rates in London 3-mth Treasury Bills 9.30%, 7-day Interbank 10.1%, clearing banks' 7-day notice 4.36% Eurodollar rates (Libor): 3 mths 6.81%, 6 mths 6.81%.

†M2 except Australia, Canada, Spain, Switzerland, USA, W. Germany, M3, Japan M2 + CDs, UK £M3. Definitions of interest rates quoted available on request. Sources: Bank of Bilbao, Chase Manhattan, Chase Econometrics, Banque de Commerce (Belgium), Nederlandse Credietbank, Credit Lyonnais, Svenska Handelsbanken, ANZ bank, Credit Suisse First Boston. Interest rates are indicative only and cannot be construed as offers by these banks.

TRADE, EXCHANGE RATES AND RESERVES Another record trade surplus for Japan: \$8.4 billion in May, for a 12-month to of \$69.1 billion. In the same month, Japan's current-account surplus fell slightly to \$7.7 billion but the 12-month cumulative surplus increased to \$63.2 billion. West Germany's current-account surplus fell in May to \$2.7 billion but the 12-month surplus rose to \$21.6 billion. In the year to May, Britain's trade deficit grew to \$4.6 billion. The dollar's trade-weighted value fell 1.4% in the week.

	Trade balance**		current-account balance \$bn latest 12 mths	Trade-weighted exchange rate		currency units per \$		currency units			foreign reserves††	
	latest month	latest 12 months		latest	year ago	latest	year ago	per £	per SDR	per ecu	April	year ago
Australia	- 0.17 (5)	- 2.1	- 9.9 (5)	55.4	65.8	1.52	1.50	2.35	1.79	1.49	6.6	6.5
Belgium	+ 0.33 (3)	- 0.7	+ 0.1 (12)	95.6	89.3	44.6	61.3	69.1	52.8	43.9	5.1	4.7
Canada	+ 0.77 (4)	+ 9.7	+ 3.2 (3)	78.3	88.3	1.38	1.36	2.14	1.63	1.37	2.6	2.7
France	- 0.34 (5)	- 2.5	+ 0.6 (12)	69.4	65.1	6.95	9.27	10.7	8.26	6.85	26.5*	21.5*
W. Germany	+ 4.02 (4)	+ 33.5	+ 21.6 (5)	135.7	121.8	2.18	3.05	3.37	2.58	2.15	45.6	37.9
Holland	+ 0.64 (3)	+ 4.2	+ 5.9 (12)	125.8	112.4	2.45	3.43	3.80	2.91	2.42	11.2	8.8
Italy	- 0.58 (4)	- 10.0	- 4.1 (12)	46.4	45.4	1494	1941	2316	1779	1475	17.2	18.7
Japan	+ 8.42 (5)	+ 69.1	+ 63.2 (5)	209.4	155.6	163	248	252	192	160	31.3	27.0
Spain	- 0.50 (5)	- 5.3	+ 3.6 (5)	48.6	47.4	139	173	215	164	137	11.5*	11.0*
Sweden	- 0.37 (4)	+ 3.2	- 10.9 (12)	67.7	66.8	7.08	8.77	10.9	8.39	6.97	6.6	4.5
Switzerland	- 0.26 (3)	- 3.7	+ 4.5 (12)	162.3	140.5	1.77	2.55	2.75	2.10	1.75	16.2	12.8
UK	- 0.67 (5)	- 4.6	+ 4.5 (5)	76.4	80.9	0.65	0.77	—	0.77	0.64	14.7	10.0
USA	-12.10 (4)	-160.7	-125.2 (3)	113.9	144.3	—	—	1.55	1.18	0.98	35.4	21.4

**Canada, Australia, Japan, France and UK imports fob, exports fob. All others cif/fob. †Bank of England index 1975=100. ††excluding gold. *March.

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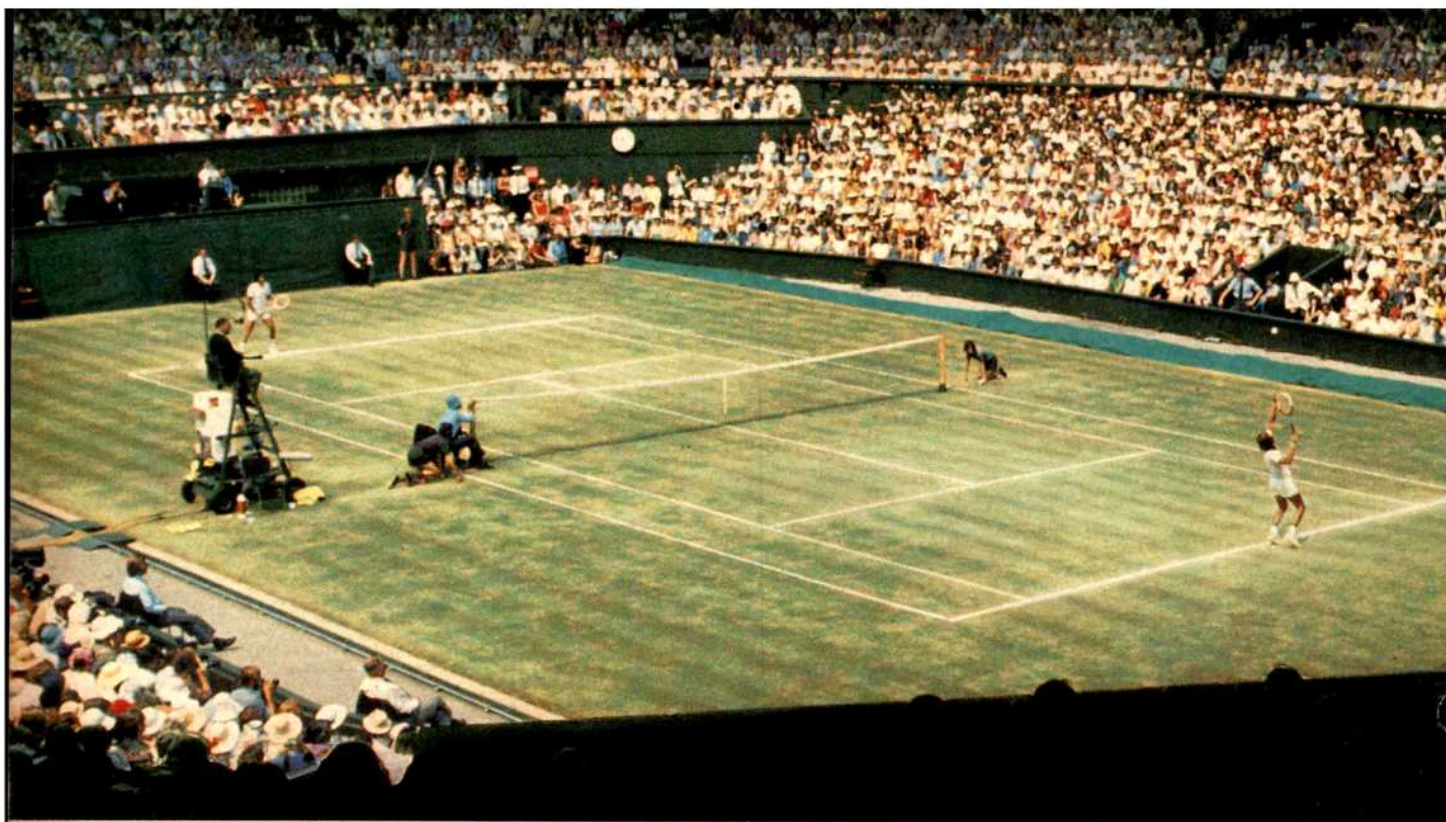
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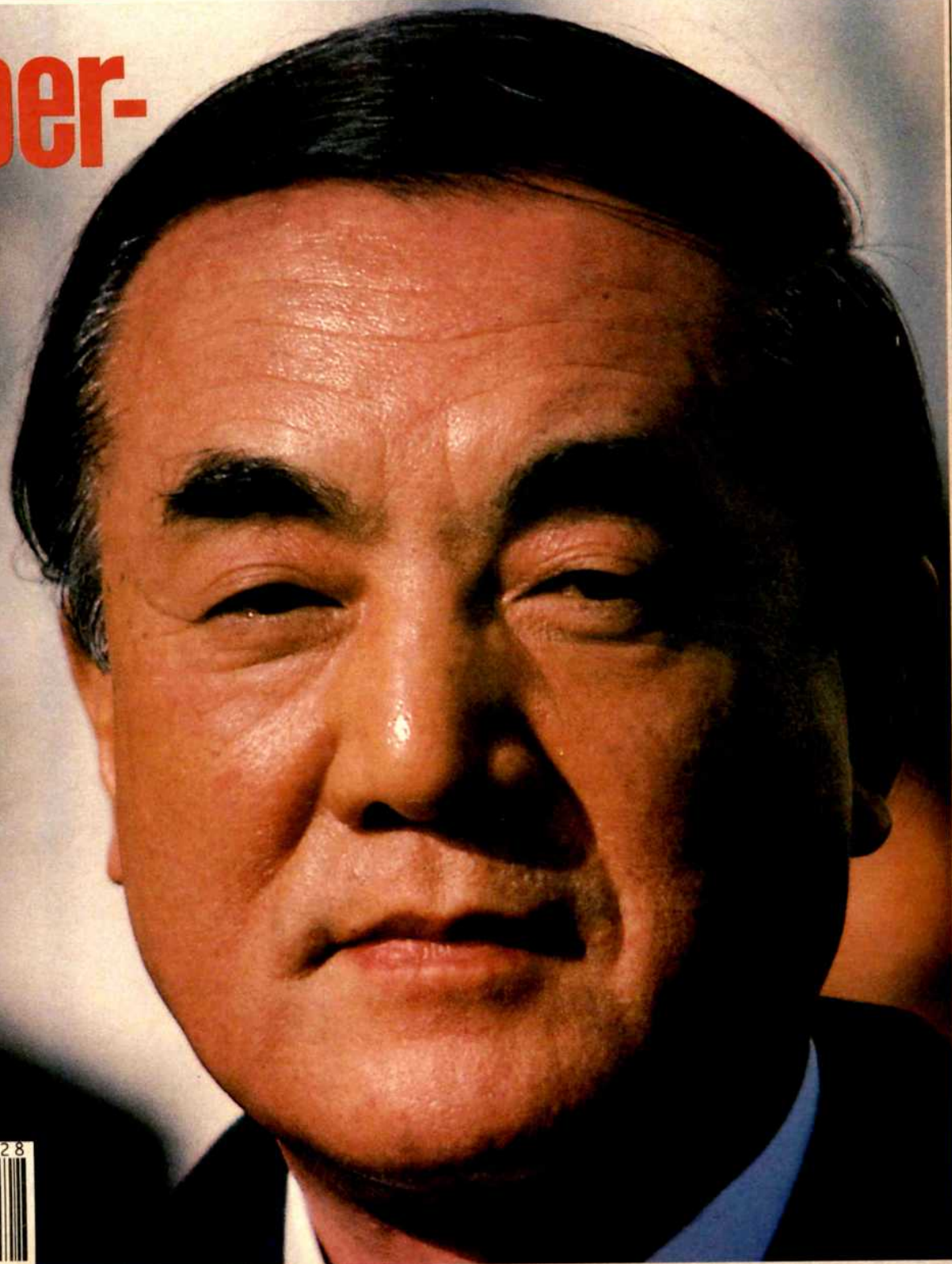
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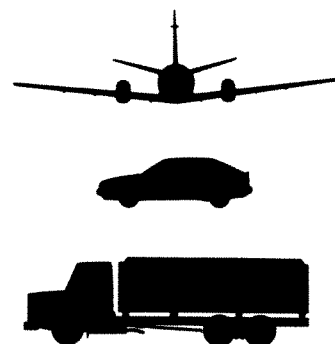
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Super- san



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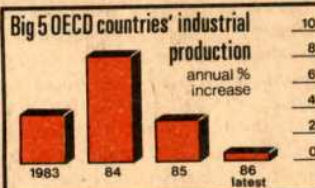


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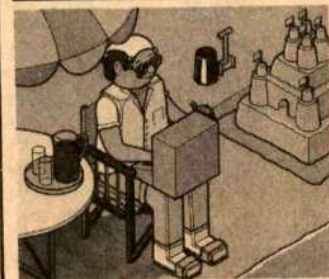
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LETTERS

Space exploration

SIR—I was glad to see you state ("Eagle grounded", June 7th) the true motivation behind the continued exploration of space—high adventure.

National pride was the driving force behind the Mercury, Gemini, and Apollo programmes, as well as the early Soviet space efforts. An expanded "international" pride and desire for achievement on a grand scale could and should be channelled into an effort to put a terrestrial explorer on the surface of another planet. This idea is infinitely more appealing than the prospect of producing perfectly round ball-bearing 120 miles overhead.

I have no doubt that the commercialisation of space will eventually take place. But should the exploration of Mars replace the orbiting factory in the near term, we capitalists need not despair. The legacy of the Apollo programme has been untold technological and commercial development for the industrial nations of the world, and proportional commercial opportunities as well.

Aurora,
Colorado RAYMOND A. WENDELL

SIR—As long as there is even a small chance that man will become extinct on earth, seeding the race on other worlds is a small price to pay for insurance. You are right: the solar system is not more than a temporary solution because none of its worlds (at present) can compete with earth. But in the long run interstellar colonisation is inevitable.

I say that within three or four centuries we will build a giant ship that will make an interstellar voyage. This is not new; the details were worked out in science fiction stories of 1941-42 vintage. Unfortunately, many scientists do not understand the primary reason for spaceflight. They fight manned missions because such missions take money from their projects.

Wheaton,
Maryland ARYEH H. SAMUEL

Nigeria's hangover

SIR—I enjoyed reading your informative, if rather merciless, survey (May 3rd) of the Nigerian economy. You demonstrated clearly that much of the \$100

billion earned by Nigeria in the oil-boom years was wasted on projects of questionable value, or embezzled outright by corrupt government officials and businessmen, who squirreled away much of this money abroad. However, I am disappointed that you did not highlight more prominently this problem of corruption and, particularly, the role of foreign nationals and financial institutions, such as the ubiquitous Indians and the Johnson-Matthey Bank, in abetting the legions of greedy Nigerians who looted the nation's treasury, further impoverishing its long-suffering people.

Now the party is over, and people are turning back to the land we neglected for so long. And given sound economic policies, our rich land will doubtless come to our salvation once again. However, in a country where corruption sometimes appears to be official government policy, any return to relative prosperity might simply be a sign for our legion of "contractors" and "politicians" to resume the orgy of treasury looting.

We cannot stamp out this disease unless we can show that corruption will not go unpunished. This is where Nigeria's trading partners come in. It is essential that they are not seen by corrupt government officials as havens either for their ill-gotten gains or for themselves and their families. However unpalatable it may sound, the governments and business communities of Europe and North America must not only assist countries like Nigeria to repatriate stolen funds and its owners under existing laws, but also actively assist in locating them.

Kaduna,
Nigeria

O. J. FOLORUNSO

SIR—It must be pointed out that the Nigerian economic revolution failed not because it was a "capitalist revolution". It failed because the policies pursued were not capitalistic enough. Furthermore, Nigerian problems were not in part because her "commercial class" want to be civil servants but because her civil servants tend to operate as a commercial class.

Columbia,
South Carolina

A. O. NJOKU

An Irish divorce

SIR—One was saddened and disappointed (June 7th) to note that you wish to see Ireland dragged down into the moral morass in which Britain is floundering. "Restricted" divorce, as you have found out, always leads to "no-fault" divorce, ie, a free-for-all in favour of the randy gentlemen whose numbers increase rapidly when the gate is flung wide open. That is, indeed, "progress"—progress down the Gadarene slope.

There were some other curious remarks in the article.

1) It seems hardly appropriate to use the term "co-habitation" to describe the relations between the author of "*Non Abbiamo Bisogno*" and Musso, who called him "*il vecchio ostinato*".

2) The snide remark about General Franco, who saved Spain from the irreversible tyranny of Communism, and prepared his country for democracy by his careful grooming of Prince Juan Carlos. As king, that young man has vindicated his choice.

3) "The papal authorities in Rome may (and for well-off Catholics often do) dissolve or annul Irish marriages." This is lifted from the gutter press.

The papal authorities in Rome may not and *cannot* "dissolve or annul" marriages. They can (as every civil government can and does) issue a declaration of nullity, stating that no marriage has taken place. In a sizeable proportion of the cases tried in Rome, expenses are remitted in view of the poverty of the applicants.

4) "In 1983 they voted narrowly to add a clause acknowledging the 'right to life of the unborn.'" "Narrowly" is a curious word to describe a 2-to-1 majority. Are you going to describe 63% to 37% as a "narrow" margin in rejecting divorce?

I wish you God's blessing and guidance in your difficult task.

Limerick, Eire LEO DONNELLY SJ

Death penalty

SIR—You owe an explanation for your bald assertion in your leader on the United States Supreme Court (June 21st) that the "abortion debate . . . is secondary (in importance), for instance, to the matter of capital punishment, already reintroduced by the Burger court—to America's shame." Yes, capital punishment was outlawed many years ago in Britain, a country where abortions have long been freely available. Apparently the life of an unborn innocent is worth less in your

country than the life of a mature murderer, rapist or arsonist. Forgive me if I fail to see the logic in that.

What I find more deeply confusing, however, is that *The Economist* should adopt such a stance. Can you not see that most of the United States has made what is basically an economic decision? Put simply, the capital convict's cost to society (in lives he has laid waste and in future maintenance behind bars) is greater than his value to society (demonstrably nil or close to it). There is no good reason to make an exception to standard economic analysis just because a life is involved, particularly where the life involved is proven to be that of a beast. Arguably, that life is not worth nil to the person most directly concerned; he should have thought of that before he committed his crime.

San Francisco JOHN COVELL

European air fares

SIR—At first sight, your formula for fares set by "country of origin" (June 28th) could overcome the cost problem caused by the much higher wage costs of the continental airlines.

Yet, if we each paid fares geared to local cost levels, many regular travellers from continental Europe would buy all their tickets here, apart from the first one. Some high-wage continental airlines are reporting losses on their European networks already, before any further revenue dilution, and the destruction of any nation's strategic air transport capacity is politically unacceptable.

The major success of American deregulation has been that typists are no longer paid 40% more by airlines than by everybody else: the third man has vanished from many cockpits; and salaries generally have gone down, while productivity has improved. There is room for much similar improvement in Europe. Price competition from lower-cost British airlines could stimulate reforms, but it will be a very nasty medicine for the continentals to swallow.

London A. J. LUCKING

Student grants

SIR—Your statement (June 28th) "Britain provides all students, however rich their parents, with grants to cover at least part of their living expenses" is not true. From the academic year 1985-86, the richest students have received no such grants. You also state

EXECUTIVE FOCUS



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LETTERS

that students should be encouraged to find part-time employment. I would be interested to know where—in an unemployment blackspot such as Hull—this employment could be found without displacing permanent residents from their jobs.

Huddersfield,
Yorkshire

JAMES SHEARD

South Africa

SIR—Most of us seem to know that sanctions will not achieve anything useful and will probably hurt everybody, including South Africa's blacks. So why not a total ban on visas for white Afrikaner adult males to all OECD countries, including diplomatic and airline staff?—an Afrikaner being defined as anybody born with a Dutch name.

Cost, nil. Fair? No. Petty? Very. Discriminatory? Highly. Retaliation? Nothing we could not bear. Such a policy, strictly adhered to, may do more than anything so far done to show what we think of Afrikanerdom; and there is nothing to be lost.

Kenmore,
Queensland

PETER SMITH

Adoption

SIR—Your comment on the absence of adoption data in the United States (May 31st) is correct. While researching my doctoral dissertation on the adoption of foreign children by Americans, I contacted all 50 states for data; only nine had routinely available data on even the most basic question of how many adoptions take place within a state.

You understate the scale of foreign adoption in the United States. It has actually grown an average of 11% annually since 1968, reaching 9,400 in 1985; more than 10,000 foreign children will be adopted by American families this year. In 1970, foreign children accounted for just 2% of out-of-family adoptions; now they account for about 22%, and about half of all adopted infants.

Oakton,
Virginia

ROBERT MATTHEWS

SIR—Your statement that independent adoption is the only quick way to find a healthy white infant is true, but I would not agree that independent adoption means going through a third party. In Maryland, and I am sure in many other states, third party involvement is strongly discouraged and most independent adoptions involve direct contact between adopters and parents.

You say that private adoptions can cost as much as \$30,000, and private agency adoptions average \$6,000. I would add that independent adoption probably also averages \$6,000. The black market probably exists but certainly not to the degree the media would have us believe. I know of a few people who have lost money spent on legal or medical expenses when mothers have decided to retain their babies, but never have I heard of anybody making a deposit on a baby or being outbid.

Foreign adoption is also maligned in your article. First, instead of costing around \$10,000, foreign adoption ranges from

around \$5,000 for Indian or Korean, the most common type, to \$7,000 to \$11,000 for Latin American adoption, which usually involves travel by one or both parents and a stay in the child's country of origin. Undoubtedly, there are a few illicit foreign adoptions, but the vast majority are quite legal and serve all parties well.

LAUREL STRASSBERGER
Baltimore,
Maryland
Families Adopting
Children Overseas

SIR—One point that should be noted is that the American facility called the "maternity home" is largely responsible for the proportionately higher number of American unwed mothers choosing adoption. Were other countries to consider adapting the maternity home to their own situations, the result would not only be better care and outcomes for pregnant, unwed women and their babies, but many more babies being available for adoption domestically.

WILLIAM L. PIERCE
Washington,
DC
National Committee
for Adoption

Whales

SIR—I consider almost every point in your leader "How to save the whale" (June 7th) to be misconceived, but I will confine myself to commenting on your labelling of whales as "a big source of handily packaged protein".

The great whales have become one of the most powerful symbols of the worldwide conservation movement precisely because people appreciate that they have many other values apart from being a relatively unimportant source of human food—even in Japan whale meat accounts for less than 1% of protein eaten. The blue whale is the largest animal ever to have lived on earth, and all species of whales possess outstanding intelligence. *Homo sapiens* can undoubtedly learn an immense amount from studying live whales. The fast-growing whale-watching industry is a source of recreation, education and scientific research, and also of economic benefit on a scale to match the killing of whales for their meat.

Many people put a much higher value on the whales' right to continue to exist than on a few countries' right to continue killing them for a marginal addition to the world's protein supply. The fact that whales can be killed only by intolerably slow and cruel

methods is another crucial reason that I consider the continuation of the whaling industry to be a debasement of human values and sensibility.

Slimbridge,
Gloucester

PETER SCOTT

Vexed by VAXs

SIR—As one who works daily with some 50 networked DE VAX computers ("Fighting for office space", June 21st), let me assure you that the industry buzzword for more than one VAX is VAXen, not VAXs. "The quick grey VAXen jumped over the lazy blue mainframe." VAX is a trademark of Digital Equipment Corporation. VAXen, as yet, are not.

Portland,
Oregon

DONALD M. CRAIG

Hyundai

SIR—I would like to point out two errors in your article on Asian carmakers (May 24th). While Hyundai Motor America has announced a goal of 100,000 sales in the United States for 1986, the vehicle being sold in this country is the front-wheel drive Excel, not the Pony. Moreover, these sales are being made through a network of Hyundai dealers, not Mitsubishi dealers.

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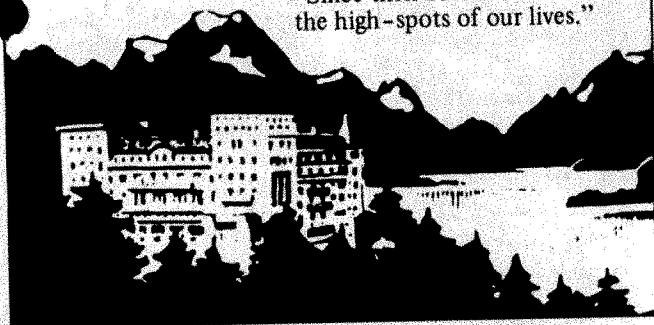
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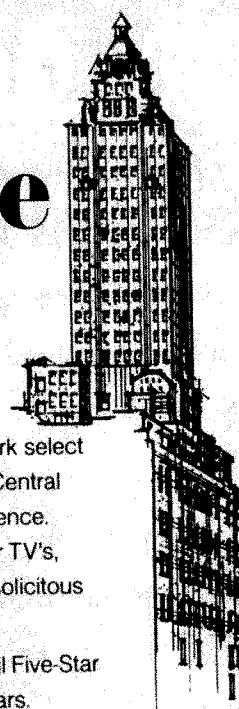
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Super-san



The jibe about Yasuhiro Nakasone used to be that he was Japan's most popular prime minister—with foreigners. His party's extraordinary victory on July 6th (the ruling Liberal Democrats took their biggest share of the vote since 1963 and won the largest number of parliamentary seats ever) has shown that for his countrymen, too, Mr Nakasone is something special.

That may not be enough to secure him another two years as prime minister when his term expires in October. The chieftains of the Liberal Democratic party, who dislike Mr Nakasone and were to a man astonished by the vote this week, could still block him in the deal-making that will produce the next prime minister (see page 19). But the voters have sent a message which will delight Japan's friends in the West, and which those chieftains may find hard to ignore.

The man was the message

The clarity of the voters' decision owes much to the way Mr Nakasone has conducted himself this year. Whether out of desperation (a stunning victory was the only thing that could keep him in his job) or instinctive boldness, he consistently took the gamble of saying and doing what he meant. In the campaign itself he asked the voters for a judgment on him and on his ideas about Japan's future. Of course, there are many explanations for the Liberal Democrats' big win: their tactical astuteness in putting forward a small enough number of candidates for the vote not to be badly split; the voters' fears about the high yen, which drove them into the ruling party's familiar arms; the ineptitude of the opposition. But Mr Nakasone also made the election a referendum on himself. The size of the win can mean only one thing. The voters were saying yes.

The first thing they said yes to was a leader who led. Mr Nakasone was widely criticised during his first years in office for staying in front of his party and public opinion; this was not the way Japanese prime ministers were supposed to go about their business. Faceless consensus-building and deference to bureaucrats have long had their place in Japanese politics. Mr Nakasone may be showing, to the horror of the country's political class, that they have also had their day.

The second yes was to a Japan that is taken seriously as a political player on the world stage. Mr Nakasone first became controversial when he suggested that

Japan should take on more of the burden of defending itself. His views remain mere hopes: he has still not succeeded in pushing Japan through that famous 1%-of-GNP barrier to military spending. Those who fear any increase in defence spending should note that it would produce some desirable improvements—an army that can block a single enemy landing, a navy and air force that can guard the sea lanes nearby—which are still miles away from the ghosts of rampant Japan.

But Mr Nakasone has made it seem natural, to Japanese and westerners alike, that Japan should play a big power's role in the West's deliberations. Japanese newspapers and political experts predicted in May that Mr Nakasone had ruined his election chances by agreeing with his allies at the Tokyo summit to condemn Libyan terrorism and to say nothing against the rising yen. Japan's voters did not listen to the experts. They will not, it seems, ever again be happy with a prime minister of whom a western leader could say, as de Gaulle did of one of Mr Nakasone's forgotten predecessors, "Who is this transistor salesman?"

The third yes was to a Japan whose economic growth comes from domestic demand rather than exports. Mr Nakasone has been pressing this theme all year. The change is made necessary by American and European unwillingness to put up with Japan's vast, and still-rising, trade surpluses; but it makes sense anyway. In all rich countries manufacturing employment is going to decline and the knowledge-based portion of output is going to rise: so Japan ought to be moving out of its 1960s-vintage heavy industries, fast. It should also be raising its standard of living by enjoying more leisure and better housing.

These changes will come from the tax cuts that boost domestic demand; and a high yen should make them happen faster. Mr Nakasone called unambiguously for Japan to move in this direction. The voters, just notified of the country's first quarterly decline in GNP in 11 years (a result of the high yen), nonetheless gave him more votes than ever.

The most urgent job of the new Diet will be to push forward this restructuring of Japan's economy. Both Mr Nakasone and his Liberal Democrats have until now had a slim parliamentary majority to blame for their dawdling on economic reforms. They now run the show. The Diet can, in short order, push through

legislation that will help to deregulate the economy (especially the railways and agriculture), increase spending on useful public capital (like Tokyo's highways) rather than on pork-barrel projects (like gigantic bridges in important Diet members' underpopulated rural constituencies), and seriously cut taxes.

The best man to lead Japan in doing this, and in

easing it into the wider world, is the one who has just been given a smashing vote of confidence. Mr Nakasone can be as elusive as any politician. The things he has said have often been bolder than the things he has been willing or able to do. But he has the inclination, the ability and now the votes to take Japan in the right direction. He deserves two more years.

Pause or halt?

Despite the scare on stockmarkets, economic growth will probably revive soon. But it may need help from cheaper money

When Wall Street tumbles 3% in a day, investors have more on their minds than the size of America's budget deficit three years hence after ten more congressional attempts to reduce it. They are much more worried about the slowdown in economic growth. The latest figures show industrial production in America to be only 0.1% higher than it was a year earlier; in Japan, it is actually 1.8% lower. Since these two economies account for almost two-fifths of gross world product, growth suddenly seems hard to find.

One reason is the massive fall in oil prices. That change, unequivocally good for growth in the medium and long term, has initially brought a hiatus. Companies have been holding back on buying oil and the many things linked to it—chemicals, coal, plastics—until their prices reflect the lower price of crude. This hesitancy by companies has come on top of what anyway promised to be a normal downturn in the stock (inventory) cycle in several of the biggest OECD economies: in Japan, France, Britain and Canada, companies piled up stocks in the second half of last year, and so have been ready this year to slow down their production lines while they empty their warehouses. This kind of destocking never lasts for long. While it does, though, it makes growth pause.

The ructions in the oil market have had another effect on growth. They have turned half-a-dozen big oil-producing countries from being booming markets for OECD exporters into nightmares of cancelled orders and unpaid bills. In the ten years 1973-82, OECD countries got used to increasing their exports to OPEC by almost 10% a year in real terms. Then their exports shrank by 8% (1983), 6% (1984) and 10% last year. This year, with the oil price slumped and export credits hard to get, the fall in volume may be 15%. The effects have been heightened by the sudden dullness in what for many OECD exporters had been the finest market they could remember: America in 1983-85, with roaring demand and a stratospheric dollar, had increased the volume of its imports by almost 40%. Now, with the dollar falling and America reduced to belt-and-braces ordinariness, other countries are bound to suffer a fall in sales to the United States.

The suffering, it should be said, is in a worthy cause. Just as oil at \$30 a barrel was an unsustainable and damaging distortion, so was the dollar at Y263, DM3.47

and almost £1. The devaluations of oil and the dollar are both good for the long-term health of the world economy. But until other countries start increasing their imports as fast as OPEC and America once did, the health will remain pretty shaky.

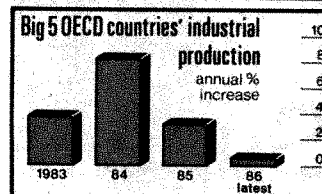
If more needs doing

The past three years have been a wondrous time of solid growth and falling inflation in OECD countries. Most are now close to the point where inflation is no longer a chronic disease: it merely needs keeping an eye on, like the waistline of a 45-year-old jogger. For governments, that means concentrating on nominal variables—money supply, budget deficits, exchange rates, above all nominal GDP—rather than trying to influence real variables like unemployment, real GDP and investment. A fixation with the real economy in the 1960s and 1970s was what allowed inflation to climb into double figures. Some recent signs suggest that politicians are returning to those bad habits: the Tokyo summit communiqué mused on targets for real growth, and much of the criticism of America's Federal Reserve stems from the view that real growth in America is too slow.

Policy would become a lot more credible if governments were to banish the language of real growth in favour of controlling the total amount of spending in the economy. When nominal GDP increases steadily by, say, 5-6% a year, it ensures solid real growth provided capitalists and wage earners do not scoop all that 5-6% in higher prices and wages. They will not be able to do so if markets are competitive, which is why a prime task of good governments is to ensure that competition reigns and markets work smoothly.

In the past six months, nominal GDP in most big OECD economies has grown too little; in Japan it may even have shrunk. Perhaps it is about to revive, as companies restock and consumers find the confidence to spend more. But governments should also be ready to boost demand—and, provided they make it clear that they will act to curb nominal GDP as soon as it starts growing faster than 5-6%, they could expand now without fear of being lampooned for changing course.

To boost demand involves loosening fiscal policy, or monetary policy, or a bit of both. The flaw in any fiscal relaxation is that it is hard to reverse: markets simply do not believe that governments will whip away from



voters tomorrow the very tax cuts or extra spending that today seem so popular. The better way is to ease up on monetary policy.

This prescription frightens central bankers, since monetary growth is already overshooting official targets in several countries. But it is far from certain that a cut in interest rates now would boost monetary growth; the old relationships have broken down under the pressure of financial revolution. In some countries, reducing

interest rates might actually shrink the broad measures of money, which have been swollen by people moving money into interest-bearing deposits where the returns are so high. There are risks in cutting interest rates, of course; but, taken as part of a strategy aiming at 5-6% growth in nominal GDP, they would be minimised. Unless spending picks up in the next month or so, central bankers should start helping interest rates to come down a bit more.

When firmness works

Some of the West's foreign-policy successes go too long unnoticed

By the end of this year or early in 1987, most people are cheerfully predicting, Ronald Reagan and Mikhail Gorbachev will get together to agree on an arms-control deal. A few weeks ago most of the same people were grumpily saying that any such agreement had probably been ruled out by American intransigence over SALT-2, star wars, etcetera. The conversion of the grumps—though, see below, the arms-control prospects are not quite as rosy as some of the converts think—is the latest example of a phenomenon of the 1980s: the foreign-policy success that went too long unnoticed because people did not want to notice it. It has been smart, in these 1980s, to believe that cool-headed firmness will not work. Quite often, it will.

President Mitterrand of France, for instance, has not yet been given enough credit for the success of his steadiness in Chad. The sceptics (who then included this newspaper) feared that he had been conned by Libya's Colonel Qaddafi, when the two men met in Crete in 1984, because Mr Mitterrand then pulled France's soldiers out of southern Chad. There followed a raid into southern Chad by Colonel Qaddafi's local friends, which was blocked by the return of a French force. Most of the French then withdrew again, and Colonel Qaddafi has since kept quiet. Full marks, so far, to Mr Mitterrand for thwarting the colonel, calmly.

Grenada is an even clearer example. The American invasion of that island in 1983 was widely denounced in Europe, and in much of the rest of the world. It then became clear that almost all the islanders, except the bunch who had just murdered the government, were delighted to be invaded; that the island's governor-general, by his own account, had wanted the invasion; and that one of its effects had been to chasten other left-wing revolutionaries in the region. The rescuing of Grenada was a good thing. Because it was swiftly done, most of those who first condemned it as illegal and immoral have now fallen silent, though not many have had the grace to say they were wrong.

One of 1986's unanswered questions is whether last April's American bombing of Libya will fall into the same category of the reluctantly acknowledged success. It certainly did not make Colonel Qaddafi the predicted "hero of the Arabs"; on the contrary, it increased his

isolation in the Arab world, and may have weakened him inside Libya. The three months since the bombing have seen less terrorism with either a Libyan or a Syrian stamp on it than the period before April 15th. It would be folly to crow that the bombing has conclusively saved lives, for Colonel Qaddafi is entirely capable of springing a horrible surprise: but those who said the bombing would not work have, so far, no reason to claim they were right.

The reluctance to risk

The other big question of 1986 is whether Mr Reagan's tough approach to nuclear negotiations with Mr Gorbachev will pay off. The obstacles to a comprehensive missile-cutting agreement are still large. The numbers game goes on. (The Russians now say that, as an "interim" measure, they and the Americans should be allowed to keep 8,000 long-range warheads each, compared with the Americans' proposal of 5,000 and Russia's previous suggestion of about 6,000. Since each side had about 8,000 as recently as 1983, that is not impressive.) Russia still wants to ban anti-missile weapons in space for 15-20 years, which is too long. The talks are still littered with the familiar booby-traps of what to do about the French and British nuclear forces, and which weapons should be counted in which categories.

Still, the doomsayers' prediction that Mr Reagan's renunciation of SALT-2 would ruin the negotiation has proved spectacularly wrong. Since then, the Russians have offered better terms on star wars, on medium-range missiles, on the what-counts-where question and, judging by Colonel-General Chervov's hints in London this month, on chemical weapons too. The threat of a new arms race implicit in the abandonment of SALT may or may not have caused these concessions, but it did not prevent them. This paper's guess is that, if Mr Reagan and Mr Gorbachev meet around the turn of the year, they can probably strike a deal on medium-range missiles and chemical weapons, and possibly one on long-range missiles and star wars too; and so they probably will meet.

Until the past week or so, this hopeful view was a minority one. Most people's comments pointed sternly to gloom and despondency. Why? Partly because, in



Europe, most people are reluctant to give the Reagan administration the benefit of any doubt. But mainly because all the things mentioned in this article—invading Grenada, going into Chad, bombing Libya, using SALT-2 as a bargaining lever—were calculated risks. The conventional wisdom of the recent past has

been that taking risks is something nations should not do, because the conventional wisdom reckons they almost always turn out badly. They don't, if they are carefully planned and carried out coolly. Perhaps those too long unsung victories are reminding the West of a forgotten lesson about how to survive in the world.

The tuna and the sprat

Stopping Russia's fishy business in the Pacific

In the South Pacific it is easy to be lulled into a sense of sleepy security. The United States was jolted out of somnolence last year when Kiribati signed an agreement allowing the Russians to fish in its waters. What were the Russians doing making agreements in the one bit of the world from which they had seemed mercifully absent? And where is Kiribati, anyway?

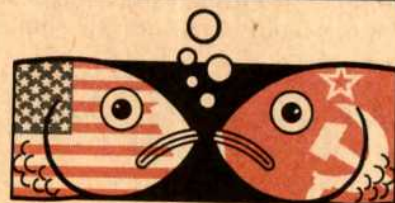
Kiribati (pronounced Kiribass) used to be the British-ruled Gilbert Islands. After independence in 1979, it became poor, partly because its phosphate mines ran out. Its other main resource, tuna, was poached by foreign fishermen, mainly Americans. The United States does not recognise Kiribati's 200-mile "exclusive economic zone" around its coasts, although the Americans have claimed similar zones for themselves, as have more than 100 other countries. Kiribati grew weary of long talks about the fishy business, which had started in 1984 between America and 11 small Pacific island states. Reluctantly, it accepted Russia's offer of \$1.7m for fishing rights.

The Russians have behaved impeccably. They fish within Kiribati's economic zone, but do not sail into the state's 12-mile territorial waters and do not come into port. Other Pacific island states are now being tempted to sign up for some dollars from Russia. The high seas still being reasonably free, there is no sensible commercial reason why they should not do so. However, it

looks as though future Russian deals with the island states may not be as straightforward as Kiribati's.

The Russians have proposed to Vanuatu that they should have port facilities, and landing rights for Aeroflot. Vanuatu is an independent-minded country. It is a capitalist tax haven which has friendly ties with a number of communist countries. It will probably allow the Russians ashore, if only to boost its lagging tourist trade. More surprisingly, Fiji, which turned down a Russian deal last year, and criticised Kiribati for having one, now says it might do a deal and would allow the Russians ashore to run a cannery.

The Americans waggle their eyebrows about Russian ships, albeit civilian ones, getting port facilities at a time when their own ships, albeit nuclear ones, are being denied permission to dock in New Zealand and some other places in the Pacific. Nothing the Americans do now will make the Russians go away. But it is not too late for the Americans to refurbish old friendships. Since the Kiribati agreement, they have had eight sets of talks on fishing with the island states. In the ninth round, the islands are asking for \$20m a year between them for fishing rights. The Americans are offering \$4m in government aid, plus \$1.5m from the tuna-fishing industry. Even \$20m is a sprat-like sum, which would buy one everyday fighter aircraft. It is time for the Americans to be self-helpingly generous.



Europe on the line

With the right sort of encouragement, European telecoms companies can compete internationally

Suddenly, Western Europe has a chance to do something about its telecoms tangle. France's telephone system, once an international joke, is today among the best anywhere; and, in buying control of the telecommunications interests of ITT, its Compagnie Générale d'Electricité has become the world's second-largest supplier of telecoms equipment after AT&T. European companies—Italtel, Plessey, Siemens and CGE—are banding together. In one high-tech sector, Europe seems at last to be creating companies big and strong enough to compete globally: if only European govern-

ments will let them.

Unfortunately, the continent is still a patchwork of protected national markets. Britain's privatised quasi-monopoly apart, Europe's telecommunications are provided by state-owned monopolies that shop at home. In France and Italy, state-owned telecoms-equipment makers plug straight into state-owned PTTs. In West Germany, cynics say they cannot decide whether Siemens, the main supplier of telecoms equipment, is a subsidiary of the Bundespost, or vice versa.

Within their sheltered national markets, Europeans



have created a skein of conflicting technical standards and regulations. British telephones cannot be hooked up to the German network; Italian switchboards cannot handle French calls. In mobile telephones, the newest telecoms growth business, European motorists cannot make or receive a call when they drive into another country because national cellular-radio systems operate on different frequencies.

An influential minority of European equipment makers have come to realise that this protectionism is as bad for them as for their customers. Europe has six competing kinds of digital switch, while North America has only three. As a result, European firms are spending roughly twice as much per dollar of switchgear sales on R&D, on marketing and on maintenance as the Americans are. No wonder the American stuff is cheaper.

Bring down the barriers

The time for Europe-wide decisions is now. Within five years, the world's telecoms networks will be installing equipment that sends computer data and video images as easily as today's networks handle the human voice. European equipment makers know that a common European technical standard for such Integrated Services Digital Networks is essential. Without it, and with only national markets to play for, they cannot justify the investments necessary to create the next generation of equipment. Together with PTTs, they are negotiating to reach an agreement on a common standard a.s.a.p.

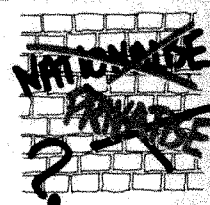
Lured by the broader markets that a common standard will open up—and by the incentives offered under the Eureka, RACE and ESPRIT programmes to encourage pan-European R&D—European telecoms firms are at last creating joint ventures which promise to grow big enough to compete all round the world. It remains for

European PTTs to do their bit by making big changes in their purchasing practices.

They have the muscle to insist that their suppliers shop around for the best bargains on components. They could usefully exercise it by, for instance, requiring switch suppliers to explain themselves when they do not buy components from the lowest bidder. Too often equipment makers are disinclined to look beyond their own workshops or those of traditional suppliers of components—laziness that rightly infuriates innovative small and medium-sized businesses with much more modern products than Oldfellow and Grandsons (founded 1862). The PTTs ought also to rewrite antiquated regulations governing what is—or, more commonly, what is not—allowed to be hooked up to their networks. British firms are absurdly handicapped in the fast-growing market for computer modems by regulations which make it hard to sell on their home market products with features demanded as standard elsewhere—like giving computers the ability to dial telephone numbers by themselves.

Only by moving quickly on such competition-boosting changes can Western Europe get its telecoms firms fit enough to take on multinational competitors. The United States liberalised the rules on what could be hooked up to its networks years ago under the Carter-phone decision. Japanese firms are changing their own procurement policies to shop around for bargains now that an almighty yen has made so many of their suppliers of domestic components high-cost producers. If Europe does not move soon, the window of opportunity opened by the switch to Integrated Services Digital Networks' technology will close. In yet another high-tech sector, that will leave European firms on the outside looking in.

The state's industrial hybrids



Britain's old debate needs widening

Britain's two main political parties are going to spend much of the pre-election months arguing about an old question: should industries be in public or private hands? The way they argue, though, will be new, because the years of Tory privatisation have exposed some awkward weaknesses in both points of view.

The Thatcher government's rhetorical enthusiasm for selling state companies remains robust, but it cannot disguise some recent embarrassments on British Airways, the Royal Ordnance factories and water supply. Each of these sales was postponed for different reasons. But if they had been certain vote-winners, the government would have found ways to hurry them through. However unpopular old-fashioned nationalisation may be, voters are still not wild about the alternative. Quite rightly, too. Although the mere fact of being in the private sector probably livens up managers, their customers want more choice. The Labour party's new

document on state industries recognises the need to beef up consumers' rights. The way the government has done its privatising seems designed to convince consumers that their interest comes well behind that of raising billions for the Treasury.

Money-raising has also determined the sort of firms put up for sale. The government has failed to dispose of British Coal and newly profitable British Steel, two undertakings that have no obvious reason for staying in the public sector; but it still wants to sell the water authorities, which are partly regulatory authorities, not much like commercial companies, and in the public sector in most other industrial countries.

The government's urge to squeeze cash from the sales, plus its wish to mollify the existing managers of state industries, means it has generally chosen to privatise a firm en bloc. It has thus missed the chance to reap the rewards of diversity. These could be had, even

in the remaining public sector, and even in enterprises that have an element of natural monopoly, by encouraging more regional autonomy. The National Bus Company is the only state enterprise which will be split into regional parts.

The Labour party's policy document is infuriatingly Pavlovian in wanting to regain control of most state firms sold off by the Thatcher government, but the rest of it is more imaginative. The paper discusses worker co-operatives, employee share ownership and local-authority enterprise— notions that had largely been shunned by the two main parties, for all the world as though British industry's performance had been so brilliant that no experiments were needed.

The Tories will have to demonstrate their own brand of flexibility now that their privatisation programme seems to have lost its way. Their best chance of appealing to floating voters probably lies in producing some bright ideas for making state firms more market-sensitive—and in recognising that a privatised monopoly, owned mainly by financial institutions which care

more for short-term profitability than the quality of output, is not the best structure. The party should consider the workers' co-operative—a good form, surely, for some privatised coal mines. It could look at the mutual company, the form taken by many insurance companies, as a way of transferring ownership directly to customers: this might work better for the National Giro than a straight flotation.

The Tories ought also to think more about franchising, both as a way of contracting out services such as those performed by Jobcentres, and as a halfway house between state and private ownership for enterprises with an element of natural monopoly. Franchises have worked rather well for the independent television stations, though they would have worked better if the levy on profits had been better designed. It is relatively easy to compare the quality of output of the regional networks and to see how well (or badly) they are delivering what they are contracted to produce. Regional franchising might be a more sensible way to supply gas than to sell off the whole corporation.

The stable's back door

The EEC's spending mustn't run free, when all its member-states are trying to control theirs

The EEC's latest budget row is not automatic proof of the Community's death-wish. The quarrel between the Council of Ministers and the European Parliament over who holds the purse-strings was in some ways a sign of vitality. The Council appealed to the European Court of Justice; the Parliament sensibly accepted the Court's ruling in favour of the Council: the system is still working—except in its most important respect. The EEC continues to overspend, as before.

For years, the Parliament has rightly wanted to be less of a debating society, more of a real power. A Community dominated by ministers and officials in Brussels needs the counterweight of a democratically elected assembly. So the Parliament has tried to filch from the Council of Ministers a bit more say over how much the EEC spends each year. For this tortoise-beats-hare strategy, the Parliament can cite European historical precedents back to Simon de Montfort. From small beginnings, many national parliaments have grown strong by challenging the profligate monarch's absolute power to tax and spend.

Unfortunately, on this occasion, the Parliament was behaving as the profligate, not the controller. Last December, the Parliament had added to the 1986 budget 629m ecus more than the Council wanted. This sum, which is 1.9% of the Community budget, might have looked a trifle in flusher times. But today's Community has to check the growth in its spending. Some people in the Court may have noticed this.

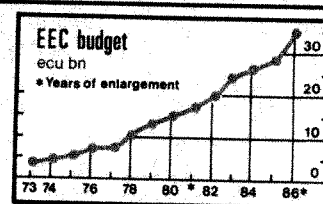
The Court only partly obliged the Council. The Parliament, it ruled, has a negative job. It can disapprove of the entire budget: but it cannot, without

Council approval, change the obligatory parts of the budget item by item. Nor can the Parliament raise the smaller, discretionary part of the budget above a ceiling set by the ministers. The Court thus denied the Parliament a one-sided power which it hoped it had won. But the Court also made it clear that drafting a budget was a task in which the Council and Parliament were jointly, though not equally, involved.

Now show you can manage

Faith on a visionary scale is needed to see in the EEC present institutions the nucleus of a government for the United States of Europe. Yet the Community's institutions are not moribund: they continue to challenge each other in a way that suggests there is something in the Community worth fighting over. All the more pity if the EEC fails to do what it must if it is to keep the confidence of the national governments. It needs to show that it can manage its affairs by controlling spending, above all farm spending.

The worst possible "solution" to the budget quarrel was being canvassed by all sides at midweek with dispiriting success—an even bigger budget. Farm spending in the EEC looks set to rise because of the greater expense of protecting European farmers against non-European food priced in cheaper-than-expected dollars. That pushes up the total budget. The EEC is doomed if it goes on tolerating such nonsense. All of its member states are trying to shut the stable door before their public spending runs away out of control. The Community cannot be allowed to open a back door which lets the beast trot free.



SOLVAY in 1985:

Once again a good year for the Group

Profit maintained at the 1984 level

1985 turned out to be a favorable year for the chemical industry in Europe and Solvay succeeded in maintaining unchanged its profit at the 1984 record level, with consolidated turnover at BF 225.4 billion, barely better than the BF 223.7 billion registered in 1984. Cash flow and profit equal the 1984 figures.

The explanation is to be found both in the satisfactory increase in turnover in the human health and plastics processing sectors and the rather dull performance recorded in the more traditional sectors, in spite of sales going up by 4 to 5% in volume. This is due to fluctuations in the rate of exchange of the Belgian franc and pressure on selling prices, although the same factors had a beneficial effect on costs, which were also favorably influenced by the results of the energy savings policy for many years enforced by the Group.

Progressive diversification into more profitable sectors

In several sectors, efforts to gain access to more profitable markets were undertaken. In the plastics sector, the priority given to special products over more common grades efficiently protects this important activity against cyclical hazards. In the

animal health sector, the purchase of the US Veterinary Division of Squibb & Sons extended the Group's product range and strengthened its position on the American market.

As to geographical diversification, it is being actively pursued by a team working in South-East Asia to coordinate and develop Solvay's business in the area.

Innovative production methods

In 1985, Solvay introduced automatic inter-electrode distance control in electrolytic units world-wide, thereby improving energy performance. Solvay also further promoted the use of industrial computers on numerous plant sites, to automate manufacturing units and optimize running conditions.

A strategy for expansion

In 1986, Solvay's investment programs are being further implemented. The most significant measure to date is the acquisition of Reid-Rowell in the United States. This opens up the US market to Solvay's European pharmaceuticals. It clearly shows Solvay is now set on making human health one of its main concerns on both sides of the Atlantic.

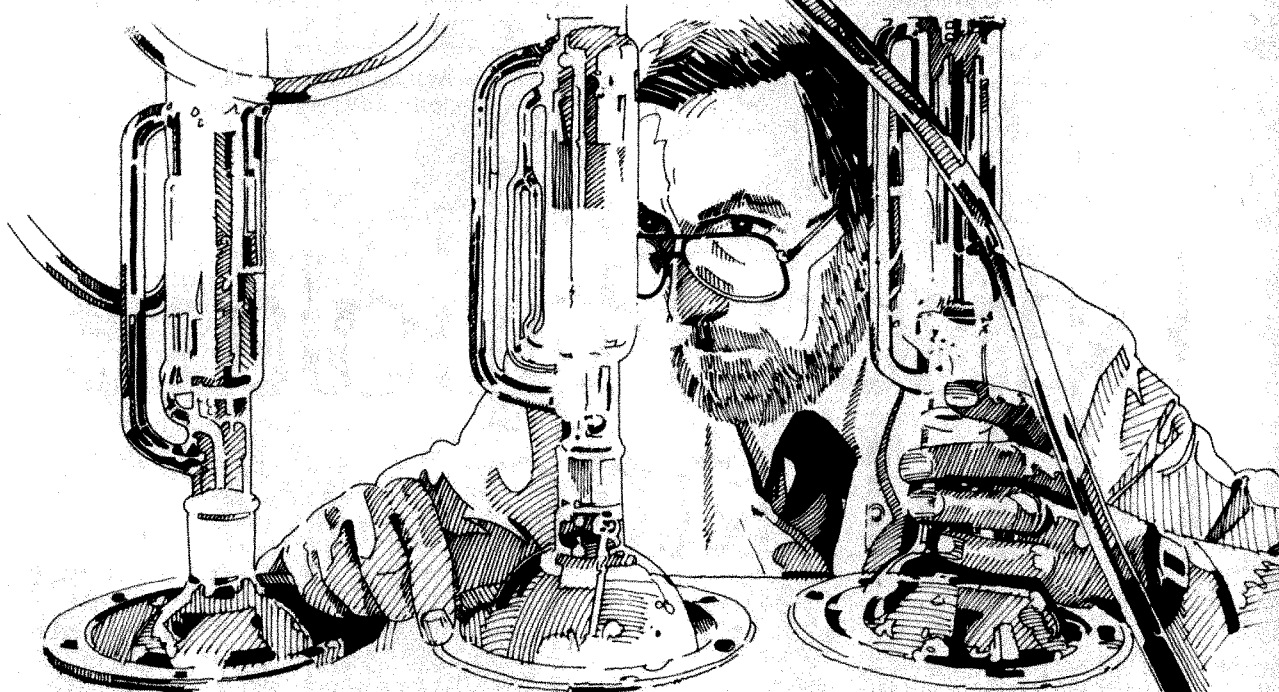
Dividend increased

The dividend proposed for 1985 to the General Assembly of Shareholders is BF 300 net of withholding tax per fully paid up share - an increase of BF 30 over the dividend for 1984.

Key figures

in millions of BF	1985	1984
Sales	225,443	223,695
Research costs	7,828	7,321
Personnel costs	53,868	51,842
Capital expenditure	13,984	10,397
Group's net profit	8,140	8,050
Solvay & Cie S.A.'s net profit	7,940	4,905
Net profit available for distribution	5,052	3,707
in units		
Persons employed	44,461	43,527

The Annual Report of Solvay & Cie is available in English, French, Dutch and German, on request from: Secrétariat Général de Solvay & Cie, Rue du Prince Albert 33, B - 1050 Brussels.



1985

Highlights of the year

The Annual General Meeting of the shareholders held on April 12, 1986 chaired by Prof. Avv. Piero Schlesinger approved the balance sheet of the year ended 31.12.85 (120th since foundation).

The results achieved during the year confirm that the bank continued to progress in both the credit intervention and services sectors.

This brilliant dynamic expansion is accompanied by a further reinforcement of the capital base and by a substantial strengthening of the participations of the Group Banca Popolare di Milano.

ECONOMIC RESULTS

The favourable result of the year of L. 95 billion (+ 28% over 1984) allows an allocation of L. 38 billion (L. 25 billion in 1984) to the "Available Reserve Fund" and the registration of a net profit of L. 57.4 billion (L. 49.1 billion in 1984, + 16.9%).

The dividend per share is L. 500 (L. 360 in 1984).

CAPITAL AND RESERVES

After the approval of the balance sheet and the proposals of allocation of the profit of the year and in consideration of the right issue successfully completed at the beginning of 1986, the capital and reserves of the bank are over L. 800 billion (+ 23%).

The risk funds amount to L. 254 billion (+ 12.72%).

As at 31.12.85 the shareholders of the bank were no. 95.202 and the employees no. 4197.

The balance sheet has been audited by Peat Marwick Mitchell & Co.

CREDIT INTERVENTION AS AT 31.12.85

(Billion of Lire)

Financial sources	L. 13.477 (+10.5%)
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Deposits from customers	L. 7.548 (+ 9.7%)
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Cash loans	L. 4.757 (+ 25.8%)
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Percent increases refer to comparisons with the same items as at Dec. 31, 1984

MAJOR PARTICIPATIONS OF BANCA POPOLARE DI MILANO

Subsidiary companies

Banca Agricola Milanese; Banca Briantea; Gesfimi (Gestione Fondi Investimento Milano); Teseo (Teleinformatica Servizi e Organizzazione).

Other participations

Nuovo Banco Ambrosiano 10.7%; Itab Group Ltd. 24%; Centrobanca 17.5%; Factorit 18.3%; Italease 16.2%.

Banca Popolare di Milano

Cooperative Ltd. Liability Co.
Established in 1865
Piazza F. Meda 4
I-20121 Milano

INTERNATIONAL

The barons ponder the voice of heaven

FROM OUR TOKYO CORRESPONDENT



No wonder Nakasone looks serene

Now the question in Japan is: how callous can the Liberal Democratic party be? The magnitude of the victory the party achieved under Mr Yasuhiro Nakasone's leadership in the election on July 6th would, in any other democracy, instantly have made him a shoo-in for a third term as prime minister after October. Mr Nakasone's chances have moved from slim before the election to quite strong after it. But it says much about what makes his party tick that he could even so be out of office before the year is over.

The landslide surprised everybody, not least the prime minister. The Liberal Democrats won their largest number of seats since the party was formed in 1955, and their biggest share of the popular vote since 1963. Even the most optimistic Liberal Democrats had forecast only that the party would increase its number of seats in the House of Representatives (the lower, and more important, chamber) from 250 to around 280, up where it was in the 1970s. When it got 300 seats, and promptly recruited four conservatives who had run as independents, Mr Nakasone had to struggle to appear hum-

ble. He described the result as "the voice of heaven".

Heaven spoke, in part, because the party wrote the script for it. Japan's multi-member constituency system produces only an approximate form of proportional representation. The Liberal Democrats achieved their gain of 50 seats with a fairly small swing in the popular

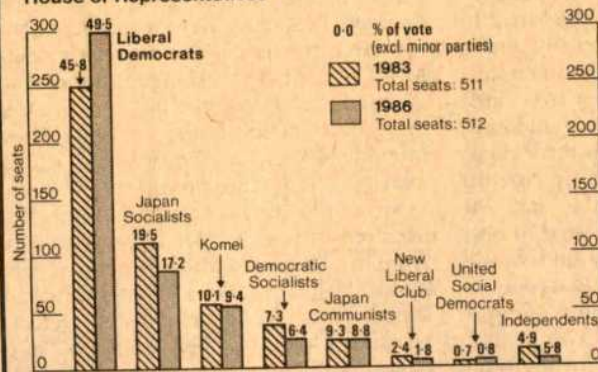
vote: they won 45.8% in the previous general election, in December 1983, and 49.5% this time. But that shift was enough to raise the party's share of lower-house seats from 48.9% to 58.6%. One reason for the large increase in seats was the fact that Mr Nakasone and the party secretary-general, Mr Shin Kanemaru, had managed to keep the party's candidate list down to 322, compared with 339 in 1983. The more candidates a party runs in a constituency, the fewer votes each candidate gets, and so seats get lost.

Another tactical reason for the victory was Mr Nakasone's decision to hold the lower-house election on the same day as the triennial election for half the seats in the fairly powerless upper chamber, the House of Councillors. This and good weather on polling day helped to bring 71.4% of the electorate to the polls; only 67.9% turned out to vote in 1983. Liberal Democratic voters are thought to be more apathetic than others, so a high turn-out generally helps the party.

The main explanations, however, seem to be one issue of policy (the economy) and one of personality: Mr Nakasone himself. The 40% rise in the yen's value against the dollar since September 1985 has made many Japanese worry that higher unemployment and a recession (at least by Japanese standards) are on the way. In many countries that might lead to a change in government. Not in Japan. One reason is that the opposition parties have proved unable, singly or in coalition, to offer any real alternative. The biggest loser in the poll was the largest opposition party, the Socialists, whose representation fell from 112 to 85 seats. It seems that

Nakasone's arithmetic

House of Representatives



Source: Nihon Keizai Shimbun

Liberal Democratic factions in upper and lower houses*

Prime ministerial candidates' names in brackets

	1986 election: before	after
Tanaka (Takeshita)	120	141
Suzuki (Miyazawa)	80	88
Fukuda (Abe)	71	83
Nakasone (Nakasone)	57	83
Komoto	34	34
Non-aligned	26	18
Total	388	447

*Members in both the House of Councillors (upper) and House of Representatives (lower) vote in party elections

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immediate worries about the effects of the high yen sent voters rushing back to the Liberal Democrats.

The *Yomiuri Shimbun*, one of Japan's biggest newspapers, commented after the poll that one-party government in Japan has made elections no more than votes of confidence, or no-confidence, in the Liberal Democrats. Mr Nakasone took the logic further this time, and made the election a vote of confidence in his prime ministership, which has been the longest and most popular since 1970. This election, more than any previous one, was fought on the question of one man's record. That is why the result is being seen as such a personal success.

It is also why Mr Nakasone's chances of remaining prime minister suddenly look good. Of course, it is possible that Mr Nakasone, who is 68, may prefer to stand down and become the party's kingmaker. But that would be out of character—especially now, just after he has fought and won an election on the issue of himself.

If he does want to stay on, the rules of the Liberal Democratic party will have to be massaged. At present (though they have been changed before), they say that nobody can hold the job of party president, and hence prime minister, for more than two consecutive two-year terms. Mr Nakasone's second term is up in October. A two-thirds majority of the parliamentary party is needed to change the rules.

It would take a brutal party to drop Mr Nakasone only four months after his success. But the Liberal Democrats can be brutal, and in the past intramural strife has increased when the party's majority has been safe. Mr Nakasone needs 299 votes to change the rules, but his own faction has only 83 members. To get enough votes, he would need to resurrect the alliance with the Tanaka and Suzuki factions that elected him prime minister in 1982. The trouble is that both these factions have their own candidates for the prime ministership. Most party elders are jealous of Mr Nakasone and would love to dump him.

His best option might be not to change the rules at all, but to ask the party to circumvent them, perhaps by separating the jobs of party leader and prime minister. That would not require a two-thirds majority. But to achieve it he would have to make a gesture towards his three rivals for the prime ministership, Mr Noboru Takeshita, Mr Shintaro Abe and Mr Kiichi Miyazawa. He would need to give them top jobs in the party and would probably have to promise that one of them would take over as prime minister before too long (say one or two years). The face-saving explanation for the rule-bending could be that Mr Nakasone

needs time to finish off jobs he has begun, such as splitting up and selling off Japan National Railways, the state-run network that loses \$20m a day.

This would suit Mr Takeshita. His sponsoring faction, the Tanaka group, picked up 20 seats in the election, but he needs more time to establish his leadership of it. Mr Miyazawa has little to lose by dealing: his chances are already terrible because he has been the most vocal critic of Mr Nakasone's policies, especially on the economy and defence. But such a deal would not please Mr Abe, who thinks his best chance to be prime minister is now.

The election's impact on policy is hard to predict. The Liberal Democrats should now be able to push through the controversial legislation on the break-up of the railways, and to take a serious look at reducing tax incentives for savings (which help keep down consumer spending and, thus, the domestic demand that Japan now wants to expand). The council on tax reform will begin discussing this in August. A mixture of tax cuts and looser regulations on building is likely to be used, perhaps as early as this autumn, to reflate the economy; this will be supplemented by more public-works spending.

The election has given the Liberal Democratic party a chance in the longer run to put a little distance between itself and the rural voters on whom it has depended so heavily. The party enjoyed its best-ever result in Tokyo, where it won 19 of the 43 seats, compared with 14 in 1983. Could it at last be brave enough to think about becoming a party for city-dwellers and consumers?

Philippines

Not quite comic

FROM OUR MANILA CORRESPONDENT

A persistent rumour in the Philippines during the past month—much reported by Manila's lively press—was that Mr Juan Ponce Enrile was planning a coup. Mr Enrile was the defence minister of the deposed President Marcos and has kept the same job under the new president, Mrs Cory Aquino. The plotters of the attempted coup against her on July 6th must have believed the rumour. They offered Mr Enrile the jobs of prime minister and defence minister.

Mr Enrile turned down the offer and declared that he remained loyal to Mrs Aquino. The coup attempt collapsed in farce. Half the 500 soldiers who had supported the coup immediately defected, saying they had been "misled" into believing that they were "protecting" Mr Enrile. The other half, including five of



Me plan a coup?

Mr Marcos's bad old generals, together with a hired mob of about 2,000 slum-dwellers, soon gave up the hotel they had seized at gunpoint and were allowed to go home.

In order to avoid bloodshed, Mr Enrile explained, all the soldiers had been promised amnesty, were allowed to keep their guns and would be restored to their army jobs. The civilian leaders of the coup, the chief of whom was Mr Marcos's vice-presidential candidate in the February election, Mr Arturo Tolentino, will be charged with sedition. This theoretically carries the death penalty.

The plotters were comically misguided in their belief that they could duplicate the great outpouring of popular support which brought Mrs Aquino to power. But their action reflects a deep difficulty, of which Mr Enrile is a part. The defence minister was the centre of the military rebellion against Mr Marcos that triggered the February revolution. Mrs Aquino felt that she was obliged to retain him as defence minister. She has since been under pressure from some of her ministers to dismiss him.

The coup attempt against her was made when the president, vice-president, army chief and half the cabinet were out of town. Mr Enrile alone was left to handle it, and this has gone some way to dispelling doubts about his loyalty to Mrs Aquino. Nevertheless, many people still believe that he had prior knowledge of the plotters' plan to take over the hotel.

Mr Enrile's presidential ambitions are no secret. He has emerged as the protector of former civilian and military supporters of Mr Marcos who are facing, like Mr Enrile himself, investigations for human-rights abuses and corruption. The assets of many of them have been seized, an action which Mr Enrile has called a witch-hunt. Thousands of elected local officials belonging to Mr Marcos's old

political party have been booted out of office and replaced by opposition stalwarts who, in many cases, are hardly known in their local communities. Mr Enrile has described this as undemocratic.

Mrs Aquino has been ruling by decree, and she appointed 90% of the members of the body that is writing a new constitution for the Philippines (Marcos loyalists were allowed to name the rest). These facts have given Marcos supporters superficial justification for their claim that she is a dictator. But such charges, which formed the basis of their unsuccessful rallying-cry this week, are disregarded by most Filipinos, who remain enthusiastically loyal to Mrs Aquino. They believe her when she says that local and national elections will be held, and legislative power returned to parliament, as soon as a new constitution has been written.

In the meantime Mrs Aquino will reflect on the best way to ensure that plotters do not strike again next time she is out of town. She is due to visit the United States in September. Perhaps she can get some tips from President Alfonsín of Argentina, who visits the Philippines on July 17th. He has so far managed to juggle the tasks of bringing crooked generals to book, restoring some stability to his country, and going on trips abroad, without being deposed.

New Zealand and France

The butter did it

It was "the end of the *Rainbow Warrior* affair", said Mr Jacques Chirac, France's prime minister. His counterpart in New Zealand, Mr David Lange, must have wished it were. He claimed that the agreement reached on July 7th was "a fair and just solution". But the storm which broke over his head in Wellington showed that, for him, the affair had not yet ended. According to Mr Jim Bolger, who now leads the opposition National party, the Labour prime minister had been "made to look an idiot". And indeed Mr Lange, after repeatedly saying that he would make no deal with France about the two secret agents captured in New Zealand last year, has accepted a deal which requires them to be handed over by July 25th.

Major Alain Mafart and Captain Dominique Prieur (whose false Swiss passports had described them as a husband and wife called Turenge) were sentenced last November to serve ten years in New Zealand jails. It was another member of the French sabotage team who actually placed the bombs that sank the *Rainbow Warrior* in Auckland harbour a year ago;

but the "Turenge" pleaded guilty to the manslaughter charge (one crew member died when the Greenpeace ship went down). Now they are merely to be "posted"—the French word *affectés* suggests a military assignment, not a period of detention—for three years to Hao, an air-base island north of the nuclear testing site at Mururoa in French Polynesia.

The French government is to give New Zealand an apology and \$7m in damages. Of greater importance, however, is its promise not to obstruct New Zealand's exports to France and the rest of the EEC. To press for the return of the "Turenge", the French had resorted to all kinds of bureaucratic bloodmindedness—in *Le Monde's* more elegant phrase, "*innombrables tracasseries douanières*": counting kiwi fruit piece by piece, slashing open bales of wool (to search, it was brazenly claimed, for narcotics coming into France from New Zealand, of all places).

Before the end of July the EEC is due to fix the quotas for the next two years' imports of New Zealand butter. Under a 1984 agreement it undertook to let in up to 79,000 tonnes this year (a figure to be compared, bleakly, with 1973's figure of 165,000); and quotas of 77,000 and 75,000 were provisionally set for 1987 and 1988. But now Mr Frans Andriessen, the responsible EEC commissioner, seems to have 75,000 and 71,000 tonnes in mind for those two years, and the European dairy lobbies have pressed for still lower levels. In the face of French threats to insist on even more savage cuts, Mr Lange's government, whose austerity policies have already contributed to a sharp reduction in farmers' incomes, had to give ground.

So, after all, economic sanctions do work? Ought Mrs Thatcher to change her mind about South Africa? The special characteristics of this affair should, however, be noted.

France's position was exceptionally strong. It had no need to persuade the whole community of nations to join it in applying pressure—or even to admit that it was applying any itself. It was not just a matter of the French being able to make effective use of a ban on imports of lambs' brains because hardly anybody else wants to eat such things. France's exports to and investments in New Zealand are so small, its power of exerting leverage through the EEC so great, and its abuse of that power so popular with its voters, that its government could, if need be, pursue a confrontation indefinitely. New Zealand's government, painfully aware of the damage EEC farm policies have already done to its exports, could have no illusions about the risks of continuing the confrontation.

This was a classic example, not of the effective use of sanctions, but of the

effective use of another procedure: resort to the United Nations by disputants who have got their horns locked and want to disengage without too much loss of dignity. The two governments had asked the UN secretary-general, Mr Javier Pérez de Cuellar, to rule on the dispute, promising to accept his decision—and, naturally, giving him a pretty clear idea of the concessions each could make.

In such a case the UN can provide, as well as a "golden bridge" for a government to retire across, a "lightning conductor" through which at least some of the more violent political reactions can be diverted. Mr Chirac may have no need for either device, as the Socialist opposition he faces held office when the *Rainbow Warrior* was sunk and would prefer never to hear its name again; but Mr Lange's need for both now seems evident.

Mexico

Stuffed Chihuahua

FROM OUR MEXICO CORRESPONDENT

CHIHUAHUA

Victory is sweet, even when premature. In the early evening of July 5th, long before most polling places had closed or the votes had been counted, Mexico's Institutional Revolutionary party claimed a landslide victory in the election for a new governor of Chihuahua state. The party also claimed to have won all 14 state congressional districts, and taken every one of Chihuahua's 67 municipal councils. It was another shut-out for a party which in 57 years in power has never conceded a substantial election defeat.

Chihuahua was supposed to be different. The largest, and one of the richest, of Mexico's 31 states, Chihuahua made history in 1983 by electing opposition mayors in every big city. The right-of-centre



When the boxes get too full

INTERNATIONAL

National Action party, PAN, won 44% of the vote, tripling its previous record. The party consolidated its hold on Chihuahua last year in an election for the federal congress. It won an unprecedented four out of ten districts and was probably cheated out of victory in a fifth. This year the PAN nominated Mr Francisco Barrio, the popular young mayor of Chihuahua's biggest city, Juarez, as its candidate for governor of the state. Many experienced PRI strategists said the ruling party was risking its first-ever loss of a statehouse.

No chance. The polls had hardly opened on Sunday morning when it became clear that the PRI had no intention of letting the opposition win. Opposition representatives were systematically kept out of polling places during the vital early minutes when ballot boxes were officially inspected and certified to have begun the day empty. Voters immediately began complaining that they were unable to get their folded paper ballots through the slots in the cardboard voting barrels. The reason, which observers could easily see, was that many of the barrels were already full of ballots.

The PAN had been predicting for months that the ruling party would resort to fraud in Chihuahua. But the PAN, a genteel and amateurish organisation only a decade younger than the PRI, is not the kind to cry foul very loudly. It did little to exploit the street protests in Chihuahua after the election. A year ago, after fraudulent PRI victories in the nearby states of Sonora and Nuevo Leon, the PAN also failed to make anything of the widespread anger.

The government's ham-handed fraud seems mystifying. Many people thought it could have won legitimately, or, at the worst, by cheating fair and square. Mr Fernando Baeza, the ruling party's candidate, is a serious man. A federal congressman, former assistant attorney-general, and one-time mayor of Chihuahua, his home town, he is attractive and ran an energetic campaign.

Mr Baeza also enjoyed the usual privileges of a PRI candidate. The government paid for his campaign, and provided crowds, vehicles, workers and favourable press coverage. The presumption that Mr Baeza would be governor for the next six years allowed him to promise patronage and costly public works, while his opponent pledged only to "defend the vote". Radio and television advertising—which has become increasingly important in Mexican politics—was denied to the PAN and used extensively by the PRI.

Even if cheating were necessary, ballot stuffing should not have been. The voter registers, which were not released until the week before the election, were padded with phantom citizens, while hundreds of

flesh-and-blood voters had been struck off. In Chihuahua, the capital, and Juarez, more than 2,000 polling-place officials were PRI loyalists and could have made more discreet alterations in the count.

Outside Chihuahua and the north, most Mexicans shrugged off the fraud. The government-managed press conveyed the impression that the voting was essentially clean, peaceful and a sterling example of the PRI's powers of recovery. A loss in Chihuahua would have deepened the divisions within the PRI between its old-time political bosses and its young technocrats. The message from the government was that at a time of national economic "emergency" it would brook no opposition.

Kuwait

No more questions

Kuwait's parliament had to go. The country's lonely exercise in Gulf democracy was making the government's job difficult. Parliament's usefulness as an outlet for discontent was outweighed by the embarrassment its outspoken criticism was causing the government. Kuwait's emir, Sheikh Jaber al Sabah, had clearly begun to envy the unquestioned rulers in the rest of the Gulf. So, on July 3rd, parliament was dissolved, and freedom of the press curtailed.

Kuwait's parliament, regarded as a dangerous curiosity by the other Gulf governments, was set up in 1961. It could initiate and pass legislation, criticise the government and question ministers. But, since the emir could dissolve parliament,



Jaber pleases the Saudis

it was supposed to use its powers with tact. It was dissolved in 1976 for pricking the government too hard, and did not meet again until 1980, after a fresh election.

That parliament was fairly tame, with only a few religious fundamentalists to insist, for instance, that diplomats should not be allowed access to alcohol. But the election in 1985 produced a trickier beast. Out of the 50 elected members, four were fundamentalists, and three others tended to go along with them. The nationalists, whose criticism of the government in 1976 had led to that year's dissolution, made a strong showing: they picked up three hardcore members and eight supporters. The government, which is selected by the emir and the crown prince (who is prime minister), became the target of an alliance of fundamentalists, nationalists and members representing some of the merchant families (who resent the large slice of business taken by the ruling family).

The justice minister, Sheikh Salem al Duaij, was questioned about his role in the collapse of the Souk el Manakh stock exchange in 1982, and had to resign in 1985. The opposition then started on the clever oil minister, Sheikh Ali Khalifa, attacking his personal financial dealings and, more recently, his failure to make the country's oil installations secure. Last month, explosions which may have been the work of Iranian agents wrecked parts of Kuwait's main refinery.

The fundamentalists also laid into the education minister, Mr Hassan al Ibrahim, who wanted to introduce unIslamic reforms in the universities. He handed in his resignation in May, but the emir persuaded him to stay on. Since the justice and oil ministers were the crown prince's closest advisers, the campaign was seen as an attack on the ruling family.

Parliament had criticised the government's performance as well as its personnel. Its failure, after nearly four years, to sort out the \$90-billion mess of post-dated cheques left by the Souk el Manakh affair has left the country's financial markets in limbo. The finance minister, Mr Jassim Khorafi, and Sheikh Ali Khalifa were due for more questions this month. Rather than face them, the government resigned. This prompted the emir to get rid of parliament.

It looks as though the emir may now work with an unelected consultative council of the sort that Saudi Arabia has been thinking of setting up. What was until last week the parliamentary opposition is contemptuous of the idea, saying that Kuwait is returning to medieval life. But Saudi Arabia's ruling family, which has always been suspicious of this democracy business, will be pleased.

Yasser Arafat

He's had better weeks

Mr Yasser Arafat's enemies are closing in on him. On July 7th King Hussein shut down the offices in Jordan belonging to Fatah, Mr Arafat's chunk of the Palestine Liberation Organisation. The next day the king expelled one of Mr Arafat's chief aides, Abu Jihad. A few days earlier the Syrians, friends of Mr Arafat's bitterest enemies in the PLO, had sent some of their toughest troops into West Beirut to try to sort out the mess in the Muslim half of Lebanon's capital. The Syrian intelligence chief in Lebanon said that Mr Arafat, who has been trying to re-establish his guerrillas in West Beirut, was the cause of most of Lebanon's troubles.

King Hussein and the PLO have been openly feuding since the king declared in February that he could no longer work with Mr Arafat, and abandoned their year-long attempt to find a way of making peace with Israel. The king presumably hoped that the Palestinians, seeing Mr Arafat's loss of international support, would move into his own camp. He encouraged a PLO official, Mr Attalah Attalah (alias Abu Zaim), to set himself up in Jordan as a claimant to the Arafat succession. All this produced little re-

sponse among most Palestinians living on the Israeli-occupied West Bank.

So the king then undertook a policy of stick and carrot. Jordanian government payments to the West Bank were held up, and permission to cross the border into Jordan was withheld. Some people, including Mr Nadim Zarou, the elected mayor of Ramallah and a former Jordanian cabinet minister, had their Jordanian passports confiscated. More recently, to add a bit of carrot to the stick, there has been talk of extra Jordanian help in "improving the quality of life" on the West Bank.

King Hussein's room for manoeuvre is limited by the fact that Jordan's two closest Arab friends, Saudi Arabia and Iraq, are still relatively sympathetic to Mr Arafat. So is Egypt's President Mubarak. This may or may not prevent a permanent breach between the king and the head of the PLO. One of the king's favourite phrases talks of "the Jordanian family" on both banks of the river. He may feel that he is merely administering a firm spanking to an errant child.

Abu Jihad had accused King Hussein of working in consort with the Syrians against the PLO. The timing of the king's move, and the entry of the Syrian soldiers into West Beirut, may have been coincidence; but Syria and Jordan clearly have similar feelings about Mr Arafat. One of the reasons for the Syrian move into Beirut is presumably to prevent Mr Ara-



Go away, says Hussein to Arafat

fat from re-creating the state-within-a-state he had in Lebanon before 1982. But the Syrians also realise that they have to do something to stop West Beirut's slide into faction-against-faction anarchy.

So far, and up to a point, it seems to be working. West Beirut is already a little cleaner and quieter. The local people understandably wonder why the Syrians did not do it months ago. Anyway, removing gunmen and garbage from the streets of one half of one city is only a preliminary to the political settlement that still eludes Lebanon. An enduring, countrywide Pax Syriana is still a long way off.

The high road to South-East Asia

FROM OUR SPECIAL CORRESPONDENT IN PENANG

The two young Australians hanged in Malaysia on July 7th for heroin-trafficking were the first westerners to die under the country's anti-drug laws, but 36 non-westerners have been executed in Malaysia for drug offences. Death is mandatory if the offender is caught carrying more than 15 grams of heroin; the law assumes that this quantity makes him a dealer. The executions have made many westerners, but few Malaysians, shudder. Malaysia has a large number of addicts, and the government is determined to stop the drug traffic. A few hours after the Australians were executed, a 69-year-old Malaysian woman was sentenced to death for dealing in heroin.

Will the hangings have any effect on the low-budget travellers who go to South-East Asia for endless sun, spicy food and cheap drugs? In Malaysia itself, probably not, since the government was already well known for its toughness with drug offenders. The death penalty has been widely publicised, and since the arrest of the Australians in 1983 all immigration cards, and even government tourist brochures, have given warn-

ing in bold red type: "Be forewarned—death to drug traffickers under Malaysian law".

Backpackers on their way to Malaysia have got the message just as clearly as the drug dealers. Possession of small amounts of marijuana is punished by imprisonment and beatings with the *rotan*. Consequently, the widely-used "Lonely Planet" travel guides—which are usually happy to suggest minor dodges in duty-free trading and the black market—have bluntly told their readers in every edition since 1984 to have nothing to do with drugs of any kind in Malaysia or Singapore (where 20 people have been hanged for possessing drugs).

Stiff penalties in those countries may prompt even more low-budget travellers to go instead to Thailand. Another Australian is under sentence of death there for heroin-trafficking. But the country is attractive because of its reputation for patchy enforcement of its drugs laws. The parts of Thailand frequented by better-off western tourists are relatively free of drugs—especially Bangkok, where the police are vigilant. And in the

town of Chiang Mai, near the opium-exporting "Golden Triangle", foreign dope-smokers are put off by rumours of dealers who make their profits twice over: once from the customer, and a second time when they point out the culprit to the police in return for a backhander. The town jail is full of young Europeans and North Americans.

But elsewhere in Thailand business continues as usual for foreigners interested in drugs. Some tourists leave Chiang Mai in small groups to visit remote hill tribes, and sometimes to share their opium pipes after a long day's trek. Koh Samui, an island near the Malaysian border, is still the preserve of backpackers from Australia, Europe and North America. It has no first-class hotels and can be reached only after a three-hour trip on a rusty ferry, so the jet-setters ignore it.

Visitors who make the trip find scattered wooden shacks on the beaches where they can live on seafood and tropical fruit for less than \$4 a day. Most of the local cafés offer "special cookies" (made with hashish) for 20 cents each, and guests can buy a big bag of marijuana—which is listed on the slate as a "large beer"—for less than \$2. Who said there were no more travel bargains?

China

The Uighur habit

China is having qualms about its increasingly modest nuclear power programme. Just before the Chernobyl disaster, China announced that it would send some of its experts to the Soviet Union to talk about nuclear co-operation. The visit will probably still take place, but with something of a cloud over it. China is looking elsewhere for reassurance that its nuclear programme is on the right track. In August it is expected to begin talks with the International Atomic Energy Agency about inspections of some Chinese nuclear plants. This month the Chinese have talked to the EEC about nuclear safety.

Safety is not China's only worry. Because the Chinese are short of hard currency, a nuclear deal with the soft-currency Soviet Union had seemed appealing.

Now Chernobyl is making China look hard at the quality of what the Russians have to offer. Cost is the inhibition in buying nuclear technology from America under the agreement reached last December. American expectations of a \$20 billion nuclear market in China over the next 15 years have already been scaled down to \$4 billion, and could go lower. Although some nuclear bits will be bought abroad, Mr Li Peng, the deputy prime minister in charge of the nuclear industry, has said that China will have to rely more on itself.

The Chinese are thought to have up to a dozen experimental nuclear reactors, some of them supplied by the Soviet Union in the 1950s. The first Chinese-designed civilian reactor (which uses plenty of imported parts) is a 300-megawatt pressurised-water reactor being built at Qinshan, on a typhoon-prone stretch of coastline about 75 miles from Shanghai. It is due to come into service in 1988. A

1,800-MW reactor at Daya Bay in Guangdong province will use French-built reactors and British-built turbine generators. It has raised a political storm across the border in Hongkong (see box).

Even under its slimmed-down programme, China hopes to build nuclear plants with a total capacity of 10,000 MW by the end of the century. Coal is still expected to provide three-quarters of China's energy needs by 2000, but most of the mines are in the far north and west of the country. China's nuclear enthusiasts argue that nuclear power is a cheaper way of generating electricity close to the eastern seaboard, where most Chinese live and where most of China's industry is located. Industries in some provinces already suffer from power cuts. China's rather wistful hopes of quadrupling the value of its production by the turn of the century depend on its generating four times as much electricity as it does today.

Nuclear energy is supposed to provide

Power to the people

FROM OUR HONGKONG CORRESPONDENT

China is getting ready to build one of its nuclear power plants at Daya Bay, on the Chinese coast about 40 miles north-east of Hongkong. Not so fast, say a lot of Hongkongers. Suppose Daya Bay becomes another Chernobyl. What would happen to the nearly 6m people living within radiation distance?

It sounds like an everyday story of nuclear anxiety. What makes it different is that the Daya Bay issue has become entangled with the question of how the Chinese are going to run Hongkong when they take it over from the British in 1997. Hongkongers are conducting a careful trial-of-strength with China to see if their future masters are willing to pay attention to a reasonable grievance.

Before the Chernobyl accident in April, it has to be said, Daya Bay was not a burning issue. Such critics of the project as there were said that the suppliers of the nuclear equipment, Britain's General Electric Company and France's Framatome, would not get much out of the deal except a chance to break into China's promising energy market. The Chinese had driven a hard bargain.

Hongkong's financial interest in the project comes through a private utility, the China Light and Power Company. It has gone into a partnership with the Chinese to build the plant and will be required to buy 70% of the plant's output—additional power that it does not strictly need at the moment, though it will probably become useful in time.

Only Hongkong's environmentalists, not a large group, grumbled about Daya Bay in the early days of the project. Now their worries are being echoed by more

than 40 Hongkong organisations, which are trying to gather half a million signatures for a petition to present to China. The project has been attacked by a leftist lawyer, Miss Liu Yiu Chu, and by Mr Martin Lee, a frequent critic of Peking's attitude towards Hongkong. Both are on the committee drafting Hongkong's post-1997 constitution. Daya Bay is due to be debated in Hongkong's Legislative Council on July 16th.

China has not publicly shown much concern. One Chinese official undiplomatically asserted that GEC was brought in only because of China Light and Power's commitment to take 70% of the electricity. The intended implication for

British ears is that GEC might be shown out if Hongkong gets too unruly.

China has nonetheless made some efforts to reassure Hongkongers of its ability to run a complicated nuclear power plant safely. This has convinced nobody. Neither have the claims of French and British experts, who say that, if there were a leak, radiation could be confined to a six-mile radius.

There is still one staunch Hongkong supporter of the nuclear plant: Lord Kadoorie, who is chairman of China Light and Power. During the negotiations over the future of Hongkong, he saw the project as an important token of Hongkong's involvement in China's modernisation. He has frequently given warnings against letting politics seep into Hongkong affairs. Petitions, protests, debates? What is the place coming to?



Free to read means free to grumble

All of these securities having been sold, this announcement appears as a matter of record only.

4,600,000 Shares

TEXAS AIR CORPORATION

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Drexel Burnham Lambert
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Merrill Lynch Capital Markets

Smith Barney, Harris Upham & Co.
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May 1986

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a growing share, but more nuclear power means more worries. Encouraged by Chernobyl to come clean, China's press has recently started reporting some past shortcomings, including accidents with nuclear waste. There have been protests by Uighurs living near the underground nuclear-weapon testing areas in remote

Xinjiang province. Discussions with Japan about storing commercial nuclear waste in China's Gobi desert are liable to stir up more trouble. It may not be long before the people of Shanghai and Canton, who live within belching distance of the power plants now being built, get the Uighur habit.

Ghana

Singin' in the rain

FROM OUR SPECIAL CORRESPONDENT IN ACCRA

Mirth is the last luxury of the poor, and Ghana's impoverished intellectuals are laughing about two theories. Both seek to explain why their country, after a quarter of a century of economic failure, is showing signs of recovery.

One theory praises the socialist principles of the Provisional National Defence Council, the military junta that has run the country since January 1982. This claim provokes a nervous chuckle. The other theory, advanced by the financiers and the officials of the International Monetary Fund and the World Bank, is that free-market policies, backed by foreign money and expertise, are already working.

The response of the intellectuals is a great guffaw. The medicine prescribed by Ghana's international friends is effecting the necessary cure, but it tastes bad in urban mouths right now. The Ghanaian recovery, the city folk explain, has speeded along mainly because ten years of phenomenal dryness have been followed by three seasons of plentiful rain.

Ghana hit bottom in 1983. Then there was starvation in the capital, Accra; now food is plentiful and food prices have (in real terms) halved. Exports were at their lowest level for half a century. Drought, bush-fires and the exchange rate had ruined the vital cocoa crop. Now cocoa exports have gone up sevenfold in volume. The shops in 1983 had no consumer goods, not even soap or matches. Now imported goodies are stacked on the shelves.

Some Ghanaians still hanker for the good old days of 1957, when they gained independence under the mesmeric Kwame Nkrumah and had a GDP per person (inherited from the British) roughly equal to that of Mexico's and South Korea's then. Nkrumahist mismanagement—particularly on everything to do with the cocoa crop—contrived that, for the next 25 years, real average incomes dropped by a steady 1% a year.

In 1981 the final attempt to run a democratic government collapsed in incompetence and farce. An idealistic group of young soldiers led by Flight-



Rawlings the prodded reformer

Lieutenant Jerry Rawlings had previously tried to reform the country by shooting a batch of generals and politicians. This time they opened an era of rule by people's committees. Bankruptcy put a stop to that experiment. After a year of desperation the soldiers went to the IMF and the World Bank, asking for help.

Foreign funds and experts have rebuilt an important railway line, repaired the main port, and made a start on rebuilding the road system, which is how the cocoa gets out. Foreign advisers have supervised a drastic pruning of the budget, a huge devaluation, which is the thing Ghana most needed, and a series of expensive foreign loans.

Those loans are a trap. Ghana's external debt is not large, since in the bad years nobody in his senses lent the country much. But the Rawlings reforms meant going to the World Bank for project aid and asking the IMF for standby credits. Repayments of \$550m are due this year—the equivalent of two-thirds of the country's foreign-exchange earnings. The net inflow of foreign money is expected to be

only \$250m, well below what is needed for the imports and new investment that can make continued recovery possible.

Foreign private investment should help, says the IMF. The government is under pressure to privatise—sell to foreigners—its wasteful hotels, gold mines and transport businesses. But potential buyers are cautious, and not just because the businesses look like lemons. Foreign investors want a stable regime: Mr Rawlings and his friends face repeated attempts to overthrow them, which they meet with executions.

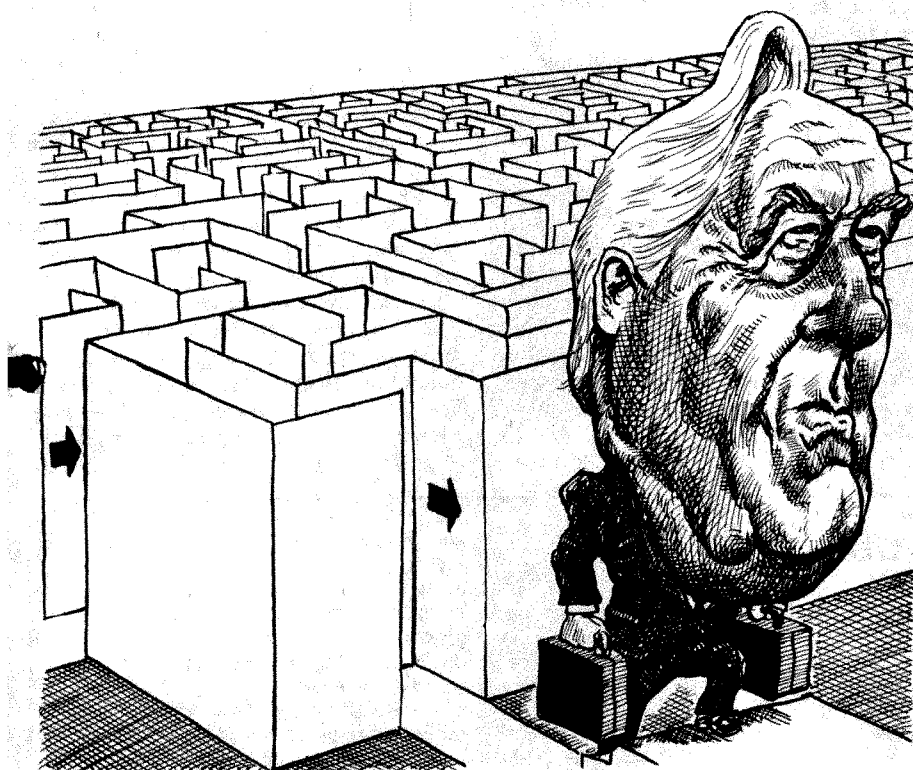
Most Ghanaians seem reasonably content, since food is plentiful and farm prices have gone up. But the urban and educated classes are having a hard time. Their standard of life depends on imports, and the devaluation is crushing them. Until 1983 a dollar was nominally worth 2.75 Ghanaian cedis. A dollar will now officially buy 90 cedis, and 130 cedis or more on the unofficial (but not illegal) market. Pay, measured against the dollar, is low. The highest-paid public official, the chief justice, now earns about 10,000 cedis a month. This is the equivalent of about \$110.

The devaluation has also upset the armed forces, which operate almost entirely on imports. This is dangerous. Opponents of Mr Rawlings who have left the country piled up ample savings abroad while they held office. A few thousand dollars will now buy enough cedis to suborn companies of soldiers. Most of the exiles live in America, and the military government (which last year uncovered a clumsy local spy-ring operated by America's Central Intelligence Agency) persists in denouncing what it calls imperialist destabilisation. There is little chance that Ghana will get more American help.

So Ghana's free-market recovery programme, whose success depends in the short run on a fairly generous mix of foreign aid and private investment, may well not get enough of either. The failed policies of "African socialism" could beckon again.

Ghana's 13m people are by African standards highly educated, and by anybody's standards kindly disposed towards a free-market system. Their example has long been followed throughout post-colonial Africa. Many of the black nations are at last experimenting with free-market policies inspired by the IMF. Failure in Ghana, which has (even if prodded into it) undertaken those policies more thoroughly than most, would spread far beyond its borders. Success may depend more than anybody has yet wanted to acknowledge on not letting the needed reforms make life too tough for the city-dwellers, who so far have only the rains to be thankful for.

AMERICAN SURVEY



Burger leaves the labyrinth

WASHINGTON, DC

Muddling through as ever, the Burger era at the Supreme Court came on July 7th to the end of its 17-year run. The final few weeks were typical of what had gone before. The court, by a five-to-four vote, reaffirmed its decision that the right of personal privacy prevented a state from regulating abortions; then, with the switch of one justice, turned round and by a five-to-four vote ruled that judges would usurp state authority if they held that a right to privacy restricted the state from punishing sodomy. By other narrow votes, the justices laid down new rules to govern when and how whites could be disadvantaged to remedy discrimination against blacks; established the right of disgruntled politicians to appeal to courts against partisan gerrymanders (see page 30); and invalidated part of the Gramm-Rudman budget-balancing law on the basis of an obscure and never-exercised power of Congress to fire the comptrol-

ler-general, the government's chief accountant (see over).

Criticised from the left for having counter-revolutionary instincts, criticised from the right for failing to follow them through, the court that Warren Burger, the 15th chief justice of the United States, has led since July 1969 was doomed to comparisons that were both persistent and unkind. Persistent because, even after 17 years, the Burger court was responsible for few innovations and followed largely an agenda of reaction to what Earl Warren's Supreme Court had done. Unkind because, in comparison with the Burger years, the Warren court had an easy path to follow.

In earlier times, the Supreme Court's agenda has concentrated on issues such as the relative powers of the state and federal governments or the power of the government to regulate commerce. The agenda established by the Warren court,

and followed in Chief Justice Burger's years, was focused on a different issue: the relationship of the individual to the state. In Warren's day, that agenda meant striking down state practices that forced some citizens into a second-class status. The courses of *liberté* and *égalité* ran together and, if *fraternité* was battered somewhat in the process, no matter, the social fabric seemed tough enough, at least in the beginning, to take it.

Chief Justice Burger, by contrast, came to office at a time when social disintegration seemed to many a frighteningly real possibility. As his term proceeded, the task of enhancing the equality of one group seemed more and more often to require constricting the liberty of another, forcing the court into a series of difficult choices of values.

In each of the three areas in which the Warren court had had its greatest impact, areas which dominated the Burger court docket to the last—race, crime and the structure of the nation's political process—the earlier court had the opportunity to announce broad principles that outlawed manifest injustices. The Burger court faced the harder task of deciding how to deal with problems that judicial denunciations had failed to eliminate.

In the area of race, for example, the lot of the Warren court was to proclaim what many Americans already believed and most, even in the South, were prepared to accept: that the constitution could no longer tolerate officially sanctioned racism. Laws fell that barred black and white children from learning to read in the same schools, that prevented black men and women from voting and serving on juries or that forbade interracial marriages.

But race prejudice did not disappear merely because its manifestations had been declared unconstitutional. To the Burger court fell the far harder task of deciding what state power—both judicial and executive—could be brought to bear to break the ingrained patterns of a nation.

Integration by bus

The Warren court had called for desegregation of the schools "with all deliberate speed" in the famous *Brown v Board of Education* case in 1954. Fifteen years later, when Chief Justice Burger took office, American classrooms remained almost as segregated as they had ever been. White parents who had, sometimes

AMERICAN SURVEY

grudgingly, accepted the notion that the state could no longer command blacks to stay out of their schools, bridled when told that the state would now command them to send their children to integrated classes.

Over the years, the justices laboriously carved out rules to guide the integration of schools both north and south. They began in the autumn of 1970, with a case that upheld the busing of thousands of children to integrated schools in Charlotte, North Carolina. They ended five years later when the court, satisfied that trial judges were exercising their powers properly, decided not to hear appeals in cases from Boston, Massachusetts, where a judge had ordered busing, and Montgomery, Alabama, where another judge had declined to do so. In the meantime, largely over the objections of both Chief Justice Burger and his designated successor, Justice William Rehnquist, the court had in effect given federal trial judges the power to override local officials and run

school districts from their offices, a step the Warren court had hesitated to take.

Soon after the justices completed their work on busing they were confronted with an equally emotional question, one that they struggled with for eight years before developing some answers last month: how much discrimination against whites the constitution and civil-rights laws would tolerate to overcome the effects of centuries of discrimination against blacks.

A court divided

The issue of reverse discrimination has left the court badly divided. Four justices have generally voted to uphold racial preferences, the "affirmative action" plans, while four others have generally opposed them. The fifth and deciding vote has been cast by Justice Lewis Powell, a cautious, conservative lawyer, whose avoidance of a sweeping answer whenever a narrow one is available has come to typify the Burger court's ap-

proach to large questions.

The cases began in 1978, when the four conservatives, joined by Justice Powell, ruled that the University of California had gone too far in excluding Allan Bakke, a white man, from its medical school in the city of Davis by establishing a fixed quota to ensure the admission of a minimum number of minority students. At the same time, the four liberals, joined by Justice Powell, ruled that the school could give special non-quota preferences to minority applicants that might, in the end, have exactly the same effect.

The *Bakke* case did little to end the confusion in the lower courts over racial-preference programmes. Later cases were of little more help. In the past few months, however, the court has begun at last to develop a consensus. Special preferences could be given to blacks and members of other minority groups, even if the individual recipients of the help were not themselves proven victims of discrimination, and even if those who

Gramm-Rudman wounded

An egregious time-waster from the beginning, the Gramm-Rudman budget-cutting law has nonetheless been a consistently successful headline-grabber. On July 7th, the Supreme Court ruled that one of the bill's central provisions was unconstitutional. Nobody was surprised. Yet, as if on cue, share prices on Wall Street slumped dramatically (see page 73). The announcement, even though the financial markets had expected it, seemed to crystallise a growing mood of pessimism over America's economic prospects in the coming months.

The Supreme Court merely upheld a lower-court decision which was announced with comparatively little fuss in February. Oddly, neither court found the Gramm-Rudman bill unsatisfactory for what might seem its obvious defect: that it was an attempt by members of Congress to abdicate their constitutional responsibility to decide how much the government spends and on what. If anything, the reverse: the bill failed its legal examination because Congress left itself a vestigial role in the "automatic" process for making spending cuts.

The Gramm-Rudman bill appointed the General Accounting Office (GAO) as chief spending executioner: the GAO's role was to co-ordinate the calculation and implementation of the cuts according to formulas decreed by Congress. That role is an executive function, not a legislative one. But, the courts decided, the GAO is an arm of the legislature, because Congress has the power to dismiss its boss, the comptroller-general. So Gramm-Rudman had proposed that a quasi-Congressional body should carry

out an executive task—a violation of the doctrine of separation of powers.

The bill was obviously vulnerable to this line of attack; some of the members of Congress who voted it into law last year did so only because they were sure it would fail in the way it now has. The bill's designers even built in a fall-back provision, which the Supreme Court has let stand. The GAO will work out the cuts, as before, but they will have to be wrapped up as a resolution and voted upon by both chambers before they come into effect.

That makes the process far from automatic. Senators Phil Gramm and Warren Rudman have decided that they would rather get Congress to relinquish its right to sack the head of the GAO, and thus revive their original plan. Debate on this new proposal means that for a while longer the bill can continue to serve its time-honoured role: something for Congress to argue about instead of taking painful decisions on cutting the deficit. In the meantime, interim cuts of \$11 billion enacted last March will be void unless Congress votes to ratify them within 60 days. The National Treasury Employees Union has already announced a lawsuit claiming the cost-of-living pay increases that its members were denied in that first round of cuts.

Wall Street's view has long been that when members of Congress want to cut the deficit, they will do so, Gramm-Rudman or no; if they do not want to, neither Gramm-Rudman nor anything else like it will force them to. The will to cut the deficit may evaporate in the run-up to November's elections—one reason

why gloom over the deficit is spreading. Another is that recent weeks have brought a string of economic disappointments. (Slower-than-expected economic growth means higher-than-expected public spending and lower-than-expected tax revenues.) It was this concern over the sickly state of the economy that rattled share prices this week.

In May, industrial production fell by 0.6%, the third monthly fall in the past four months. Most analysts expect the June figures to show another fall, because the employment figures for that month, which have already been released, showed, in total, virtually no change over May. The pattern of June's employment changes both by region and by economic sector confirmed the recent trend of slump in manufacturing (especially in mining, oil-related businesses and the car industry) and strapping growth in services. This combination threatens to leave overall GNP growth at a less-than-respectable annual rate of 2½% in the second quarter.

The economy is waiting for two things: first, the benefits of cheaper oil, which will come in the form of a pause in inflation and a boost to real spending power; second, an increase in exports and a decrease in imports, both thanks to the devaluation of the dollar over the past year. A few months ago, just about every forecaster expected these factors to push growth much higher in the second half of the year. Most still do, but as signs of this bounce-back fail to materialise doubts are creeping in. Some are writing down their estimates for second-half growth from 4% or more (at an annual rate) to 3½% or less. It all adds up to mounting pressure on the Federal Reserve to cut interest rates again.

suffered as a result of the workings of the programmes were not themselves discriminators.

Companies and local governments could adopt numerical goals to guide their programmes, provided those goals were "flexible" and not "rigid quotas". Preferential treatment would be allowed in hiring, but it would not be allowed to break the traditional last-hired-first-fired rule in lay-offs and it would need careful watching if applied to promotions. Again, Chief Justice Burger and Justice Rehnquist dissented, while other justices expressed differences, mainly over details.

Awkward issues in politics

As in race, so in the area of politics: the Warren court's decree that legislative districts must contain equal numbers of people—the rule of one person, one

forced by two decisions handed down on the same day late this term, was to push America's political system closer to judicially enforced proportional representation both for political parties and for racial groups. The racial decision, broadly interpreting the power Congress had given judges in its most recent revision of the Voting Rights Act, directed judges to measure election systems against an ideal of maximum representation for minority communities. The gerrymandering decision dismissed a claim by Indiana's Democrats that they had been done in unfairly by Republican map-makers, but made clear that those disappointed by the process in the future would be welcome to make their pleas to the court.

Not all the Burger court's decisions, of course, merely followed paths the Warren court had opened. Discrimination

own in the reassertion of the independent sovereignty of the 50 states against the national government. Here it was Justice Rehnquist who led the way, pushing ahead with a line of cases that reversed a pattern of federal aggrandisement stretching back to the early part of the century. The court has moved along Justice Rehnquist's road in a jerky pattern of starts, stops and back-turns. The result so far, however, has been a notable reassertion of the power of states in the federal system.

Conservative on crime

Justice Rehnquist's other major role has been in the area of criminal law, where the Burger court has been most nearly true to the conservative expectations that gave it birth. The greater consistency on criminal matters is, of course, no accident. President Richard Nixon, who appointed Chief Justice Burger and three of his colleagues on the court, was ambivalent on racial questions, cared little about matters such as abortion, but was determined to appoint judges who would be tough on criminals—a determination which eventually rebounded against him when those judges turned out to be tough on criminal presidents as well and ordered him to give the Watergate special prosecutor access to the famous White House tapes.

But even in the area of criminal law, the Burger court seemed to move with unsure steps. The essence of the Warren court revolution in criminal law—the declaration that the constitution asserts a code of criminal procedure binding on every local police agency and trial court in the country—remains intact and is now virtually beyond question. Intact, too, are the essential elements of that criminal code: the *Miranda* rule that police must inform suspects of their constitutional rights before questioning them; the *Gideon* rule that defendants must be supplied with lawyers at state expense if they cannot afford them; the *Massiah* rule that, once a lawyer has been appointed, informers and other agents of the state cannot be used to ferret information from a defendant behind his lawyer's back; the *Duncan* rule that the states must give defendants a trial by jury; the *Mapp* rule that evidence seized as a result of illegal police procedures may not be used at a trial.

Rather than overrule any of those Warren court cases, the Burger court has contented itself with restricting their sweep—allowing illegally seized evidence into trials, for example, if the police had a magistrate's authorisation for the seizure and believed in good faith that it was proper, or allowing confessions taken without *Miranda* warnings to be used in



Burger (left) and colleagues ponder their legacy

vote—was controversial at first but quickly became an article of democratic faith. The Burger court, by contrast, faced two questions, both of which defied simple answers. The first once more involved race: what could be done to end the exclusion of southern blacks from the political life of their region? The second involved the time-honoured political tradition of the gerrymander (drawing electoral districts to benefit the party in power). Chief Justice Warren and his colleagues had hoped that the one-man-one-vote rule would so constrain the draughtsmen of legislative maps that they would be forced to give up the tricks of their partisan trade. The advent of the computer, with its vast capacity for juggling numbers, made false prophets of them.

The answer to both questions, rein-

against women, for example, had gone largely untouched in the Warren years, but the Burger court—this time with the chief justice's agreement, but still over the objections of Justice Rehnquist—repeatedly struck down laws that required men and women to be treated differently in civil life.

Abortion is a private matter

In the area of privacy, the Burger court took a slowly-evolving doctrine and fashioned out of it the most controversial decision of all, the abortion ruling, *Roe v Wade*. But although the court has held its ground on that ruling, the justices, whatever the philosophical inconsistency, have declined to take the privacy doctrine any further, as the recent sodomy decision showed.

The Burger court also struck out on its

Up to a point, Governor Gerry

WASHINGTON, DC

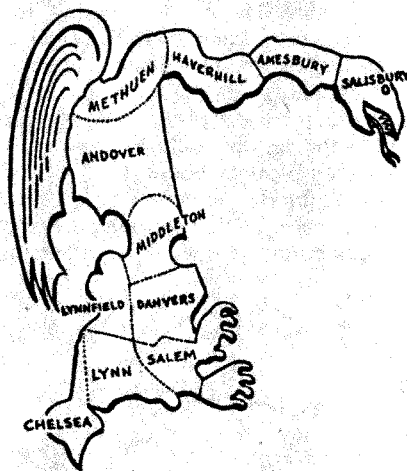
When both sides claim a victory after a Supreme Court decision, it is usually a sign that more rulings are needed. This applies to the Supreme Court's opinion, handed down on June 30th, on gerrymandering, the drawing of political boundaries by political parties in control of state legislatures to ensure their success in state and congressional elections. Both Republican and Democratic leaders hailed the decision as a victory for their side, then braced themselves for more lawsuits.

The issue before the court was a parochial squabble between Democrats and Republicans in Indiana. The Democrats said that a state legislative map drawn by the Republicans provided their party with a disproportionate share of seats in the state legislature. The case also had national implications because gerrymandering is widely used by dominant political parties everywhere. The art goes back at least to 1811, when Governor Gerry of Massachusetts approved a map that looked like a salamander—hence the term.

Both parties want to take advantage of the redistricting that will follow the 1990 census. The Republicans, in particular, believe that they will not be able to improve their lot in the House of Representatives as long as Democrats control redistricting in most state legislatures. Democrats have control of both chambers in 26 states, and 36 of the 50 governors are Democrats. Republicans

have full control of only 11 legislatures.

Even though it left the Indiana redistricting map in place, the court's decision was a departure. First, the court ruled that the drawing of electoral boundaries is a suitable issue for review by the federal courts. It has never before cho-



The salamander's wings clipped

sen to enter these murky political waters and, indeed, three dissenters—Chief Justice Warren Burger, Justice William Rehnquist and Justice Sandra Day O'Connor—said it should not do so now. They argued that the issue was best left to the legislative branch of government.

Allowing federal courts to review

charges of gerrymandering may have a long-term effect on redistricting. State legislators tempted to load the dice against their opponents will be restrained by the knowledge that they may be overruled in court. As a result, some analysts say, politicians will now be less likely to create patently unfair districts.

In the second part of its decision the court said that extreme cases of gerrymandering are unconstitutional. It then set a series of guidelines to show under what conditions it will overturn a political map. The guidelines are quite stringent and leaders of both political parties say that they do not expect a flood of gerrymandering cases. Mr Paul Kirk, the chairman of the Democratic National Committee, says he is confident that the courts will not find any existing maps that are unconstitutional. The Republicans, however, expect to win a number of cases. Some estimate that successful lawsuits could make as many as 20 congressional seats now held by Democrats winnable by Republicans by the end of the decade. The states they are eyeing include Illinois, Tennessee, Oklahoma and Florida.

There is little doubt, however, that the first big challenge based on the court's ruling will come in California. After drawing the map in 1982, the Democrats gained six seats in the House of Representatives and a change in 1983 did little to improve Republican chances. The latest challenge is a lawsuit in federal court that was held in abeyance until the Supreme Court had ruled in the Indiana case. Republicans have now filed a motion to start the California case moving.

certain subsidiary roles in trials.

In some areas, in fact, the Burger court went far beyond its predecessor in the drive to force all state criminal processes to follow a national code. The main example—perhaps the single best view of what one distinguished commentator has dubbed the court's "rootless activism" at work—has been the justices' treatment of the death penalty.

Return of the executioner

In 1972, by a five-to-four vote, with all the Nixon appointees dissenting, the justices struck down all the death-penalty laws that then existed, sparing the lives of more than 300 people awaiting execution. The laws as then established, the justices concluded, were too arbitrary to serve as a basis for capital punishment.

At least some of the justices in the majority thought the death-penalty issue was gone forever. They misread the public mood. Swiftly, one state after another accepted the Supreme Court's implicit challenge to design less arbitrary laws and, in 1976, by a seven-to-two vote, Justices William Brennan and Thurgood

Marshall dissenting, the court upheld the new capital-punishment laws in Georgia, Texas and Florida.

Three years went by before the first execution under the new laws. In the intervening years and since, the justices have continued to elaborate procedural protections to satisfy themselves that the arbitrariness test has been passed. The result has been a system that pleases almost nobody. The system allows executions, to the dismay of civil libertarians, but, to the dismay of prosecutors, interposes a series of detailed procedural requirements—complete with at least six levels of appeals—that may be too complex for the state criminal courts to operate. A high proportion of death sentences, more than half in some states, are reversed at some level of the appeals process, the critics note, and the pace of executions has been so slow in comparison with the rate of sentencing that the number of people facing execution now exceeds 1,800.

The fates of the three men whose cases the Supreme Court considered in reinstating the death penalty are instructive.

The Georgia prisoner, like many others in America's prisons, died at the hands of another inmate. The man from Texas filed a further appeal, won a reversal of his death sentence from an intermediate federal appeals court and is now serving a life sentence. And at the Florida state penitentiary, Charles Proffitt, having lost before the Supreme Court, won on a second appeal and lost again at a resentencing, sits, as he has for most of the past dozen years, on Florida's death row awaiting further hearings, a human monument to the Burger court.

Presidential speechwriters

Lost for words

It was not President Reagan's notion to call the Soviet Union an "evil empire". He may have said it; but the man who had the idea, drawing on a thought he had seen crossing the presidential subconscious, was Mr Anthony Dolan. Mr Dolan is a presidential speechwriter. He used to be one of six; he is now one of

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four, and acting head of the speechwriters' department. A war of the word-processors has been going on.

The speechwriters' office, together with the grim windowless bunker occupied by Mr Patrick Buchanan, the president's director of communications, who oversees the speechwriters, has gradually become the last redoubt of pure ideology in the Reagan White House. Even Mr Reagan himself is not so doctrinaire; he rubs along with most people, including Mr Mikhail Gorbachev and Mr Tip O'Neill, the Democratic Speaker of the House of Representatives; he has, cordially enough, shaken the hand of President Daniel Ortega of Nicaragua. His inveterate conservatism is evident mostly in the words that come out of his mouth. Whence springs trouble.

Mr Donald Regan, the president's chief of staff, has managed to get control of most matters in the White House but not, so far, of Mr Reagan's speeches. This annoys him, because though policy may be worked for on the ground its success, or failure, is usually determined by what the president says. Mr Regan's chief bugbear has been the head of the speechwriters, Mr Bently Elliott: "a Green Beret in the Reagan Revolution", as Mr Buchanan proudly described him, until he was discreetly fired in the middle of May. The life of Mr Elliott and the other speechwriters has been made miserable by the redrafting of their work by Mr Regan's aides. A speech, largely by Mr Elliott, in passionate defence of free trade was rewritten as an attack on unfair trading practices. This year's State of the Union speech was eviscerated and then, at Mr Buchanan's insistence on the telephone to Mr Regan, stitched up again.

Mr Regan's complaint is consistent: the speechwriters are too strident, and their stridency can get in the way of what the administration wants. The "freedom-fighter" speeches on Nicaragua, for example, probably did nothing to persuade Congress to give money to the contras. Mr Regan's aides now beaver to make speeches more conciliatory and less grandiloquent. Along the way, the speechwriters say, the applause lines get lost; the television "bites", the juicy morsels just right for the evening news, disappear; the jokes evaporate. Too much of this editing, and the president might evaporate too.

Now that Mr Elliott has gone off to work for Mr Jack Kemp and his presidential campaign, the speechwriters are in limbo. Mr Buchanan certainly means to stay in charge, but he cannot be sure of getting his favourites promoted. His candidate for chief speechwriter, Mrs Margaret Noonan, the author of the president's much-praised eulogy for the *Challenger*



Reagan's fireworks were missing

astronauts, resigned when Mr Regan appointed Mr Dolan instead of her, and is going to write a book. Mr Terry Eastland, the spokesman for Mr Ed Meese at the Justice Department, has turned down an offer to join the speechwriters as a sort of managing editor. Meanwhile, Mr Reagan struggles. His speeches at the Statue of Liberty festivities on July 4th should have been wonderful. In the event, it was as well they were forgotten in the roar of the fireworks.

Indians

Self-reliance, not self-determination

For the 1.5m Americans not descended from immigrants, last weekend marked a date unworthy of celebration: the formal deadline for the forced evacuation of a group of Navajos from their homes in what is now Hopi land, about 175 years after Thomas Jefferson first suggested the mass removal of Indians to a separate Indian Country in the west. Nothing actually happened on July 6th in the patch of Arizona partitioned between Navajos and Hopis, except a Sioux Sun Dance "to call on the power of the Great Spirit to support Navajo claims". But two days later Navajo resisters and their allies tore down part of the 340-mile barbed-wire fence that separates the tribes and protest-marched into Hopi territory. Many

of the pro-Navajo activists at a camp on Big Mountain are whites who have taken up Indian dress. The Hopis call them "Wannabee" Indians.

Nobody is actually pushing the remaining Navajos off land which now belongs to the Hopis, at least not until they have new homes to go to. The Bureau of Indian Affairs is building houses for the 240 families it reckons are entitled to the free-house-plus-cash benefits of removal; it expects to complete them within 18 months. But as many as 1,600 Navajo families may be living illegally on the Hopi side. This week the Navajo tribal council called on Navajo leaders to produce an evacuation plan within 30 days. Some 2,000 Navajo families have already left, only half with financial aid from the federal government, which has spent about \$100m on the exercise so far.

The evictions were ordered by Congress in 1974 as a Solomonian solution to a centuries-old dispute between the nomadic Navajos, America's biggest tribe, and the sedentary Hopis, who now number fewer than 9,000. The Hopis settled the mesas of Arizona as early as the thirteenth century; their village of Oraibi is the oldest continuously occupied site in the continental United States. The Navajos started moving in on the Hopis in the sixteenth century and the Hopis started objecting as soon as there was an authority to object to. President Chester Arthur responded by establishing a Hopi reservation in 1882, 14 years after the Navajos had got a much larger reservation to the east. Over the next 75 years, the Navajos pushed and the Hopis gave way until they occupied only a quarter of their original 2.5m acres.

The 1974 act which has just come into effect restored half of the 1.8m acres in "joint use" to the Hopis. In compensation the Navajos were given 215,000 acres of grazing land in Arizona and 35,000





The Navajos pushed too hard

acres in New Mexico. There are believed to be coal deposits and possibly uranium in the former joint-use area; the Navajos already mine coal elsewhere. But, contrary to allegations by the militants, partition will not affect any future profits. Sub-surface resources remain the joint property of the two tribes.

Both tribes would welcome a windfall. The Navajos have an unemployment rate of 40% and the Hopis 33%. (Unemployment on other reservations ranges from 25% to 85%.) Navajos and Hopis, in common with other Indian tribes, also show the country's highest death rates from accidents, alcohol, suicide, murder and tuberculosis. Yet appropriations for Indian health care are being cut: the latest bill to pass the House of Representatives would allot \$35m a year to the Indian health service compared with \$80m proposed last year. The administration wants to restrict access to federally-financed health care to people of at least a quarter Indian blood. Indian groups say this could remove 150,000 patients from the health-care rolls.

The Reagan policy for Indians is self-reliance. Accordingly, it is out to cut money for all Indian programmes by a third. A report to the president in 1984 advocated increasing government procurement from Indian-run businesses by \$1 billion over five years as one way of creating jobs on reservations, but the plan remains only a plan. The administration is now divided over whether to encourage one of the most popular forms of indigenous Indian entrepreneurship, bingo games. The Interior Department is all for promoting the \$100m-a-year Indian gambling industry; the Justice Department fears infiltration by organised crime. The

Senate's select committee on Indian affairs is trying to reconcile three bills imposing varying degrees of state regulation on bingo and other games.

In another effort to cut the deficit, the administration has decreed that state governments must share the costs of any Indian land settlement. In 1971 the federal government paid the whole \$500m bill for 40m acres claimed by Alaskan Indians and Eskimos, and in 1980 President Carter settled \$80m on the Passamaquoddy and Penobscot tribes in Maine. Of the claims still pending in Massachusetts, Connecticut, New York, South Carolina and Louisiana, the biggest and strongest is that of the Oneida tribe which has treaties to back up claims to 5m acres in upstate New York, including the city of Binghamton and a large chunk of the Adirondack State Park.

Negotiators are expected to sit down in the autumn to talk about how many hundreds of millions of dollars the 12,000 Oneidas will get for their title. And then the men from Washington can move on to talk about some of the 60 pending Indian claims to much of the west's water. Self-reliance may prove an expensive double-edged sword.

North Carolina

After East

Mr James Broyhill spent the evening of June 29th in North Carolina's executive mansion as the guest of Governor James Martin. Earlier that day, Mr John East, the state's junior Republican senator, had been found dead, having committed sui-

cide by carbon monoxide poisoning in the garage of his home in Greenville. Four days later, the governor appointed Mr Broyhill, for 24 years a member of the House of Representatives, to complete Mr East's term in the Senate.

Mr Broyhill's visit to the governor's mansion attests to his friendship with Mr Martin, but for all that the decision to confer the senatorial appointment on the congressman was a politically sensitive one. Mr East, who had been suffering from a thyroid disorder, had decided not to seek re-election, and Mr Broyhill had won the Republican nomination in a fractious primary against a candidate of the party's right wing.

Meanwhile, the Democratic party had nominated one of its elder statesmen, Mr Terry Sanford, a former governor and former president of Duke University. A poll taken before Mr East's death by the *Charlotte Observer* showed Mr Sanford leading Mr Broyhill by 46% to 40% of the statewide sample of voters.

Neither Mr Sanford nor any other leading Democrat criticised the appointment of Mr Broyhill by the Republican governor. As his party's Senate nominee and as the fifth most senior Republican in the House, Mr Broyhill was a logical choice. Moreover, Mr Martin, who spent 12 years in the House before his election as governor, has regarded Mr Broyhill as a mentor. In naming his former colleague to the Senate, Mr Martin described Mr Broyhill as the "ablest and best qualified person" for the job.

Still, the appointment had to be calculated in terms of its advantages and disadvantages to Mr Broyhill in the November election. The main disadvantage is that, with no time for settling in to the Senate, Mr Broyhill will have to cast potentially controversial votes under the hot glare of political scrutiny. For example, he has already said he plans to vote to confirm President Reagan's choice of Mr Daniel Manion for a seat on the federal appeals court in Chicago, a nomination that Democrats say rests more on Mr Manion's right-wing ideology than on his legal credentials. The advantages, however, will probably outweigh the drawbacks. Mr Broyhill can now campaign as the incumbent, his advertisements can refer to him as "Senator Broyhill" and his new office can provide constituent services across the state.

Mr Sanford, anxious no doubt to take some of the lustre off the senatorial appointment, instantly called a press conference to attack a Broyhill newsletter that he said distorted his record as governor in the early 1960s and his brief campaigns for the Democratic presidential nomination in 1972 and 1976. This round, however, has gone to Mr Broyhill.

RALEIGH

EUROPE

The coach that has 11 horses champing at their bits

Federalism has served West Germany well for nearly four decades. The mix of central and regional authority established by the 1949 constitution underpins the most solidly democratic period of German history. Competition among the federal states has stimulated industrial growth. But, as our Bonn correspondent reports, even successful political systems have to cope with strains, particularly when one of the key players is as self-willed as Bavaria

Not for nothing does Bavaria proclaim itself to be a Free State. Unlike most other German *Länder*, it has been around in self-important form since the thirteenth century. In 1949, its state parliament, alone among the *Länder*, refused to ratify West Germany's constitution, because it felt this gave too much power to the centre. Since then, however, Bavaria has made the most of the opportunities for local muscle-flexing which federalism offers.

The five federal cabinet ministers from Bavaria's Christian Social Union take their orders from Munich, not Bonn. On

his frequent foreign travels, the Bavarian premier, Mr Franz Josef Strauss, expects to receive as much attention as a leading member of the federal government (and usually gets it). Mr Strauss enjoys nothing more than a spot of freelance diplomacy, particularly if it promotes Bavarian interests. This summer, the Bavarian government's assertion of its right to decide who should be allowed to cross the border from Austria into West Germany has provoked an Alpine row in which the federal government in Bonn has been an embarrassed bystander.

The trouble started on June 28th when,

without consulting Bonn, the authorities in Munich banned Austrian would-be demonstrators from crossing the West German border; the Austrians were on their way to a rally against the building of a nuclear-reprocessing plant in Bavaria. Neither the foreign ministry nor the justice ministry in Bonn hid its displeasure at the Bavarians' border-blocking.

Mr Strauss was unmoved. He responded to Austrian complaints by cancelling a meeting with Austrian officials at which he had been due to discuss plans for a motorway from Bavaria to the Adriatic. The Bavarians even asked the foreign ministry in Bonn to tell the Austrians that their military aircraft could no longer fly over Bavarian territory on their way to land at Salzburg, as they have for the past three decades. The "Alpine war" grew to the point where the West German newspapers speculated that the federal chancellor, Mr Helmut Kohl, would have to meet his Austrian counterpart, Mr Franz Vranitzky, to restore order.

The Bavarian-Austrian dispute is likely to be a short-lived affair compared with another test of local West German strength—this time between the states themselves. On June 24th, the constitutional court in Karlsruhe ruled that

The land of the Länder



In West Germany, federalism has gnarled old roots. True, the republic's federal structure also reflects the conditions of the 1945-49 period—including the widespread feeling that a centralised Germany was a bad Germany. But the central power destroyed in 1945 had not developed organically. It had been imposed on Germany by one of its parts, the Prussia that had been synonymous with militarism.

Of today's ten full states (West Berlin is a semi-detached 11th), Bavaria, Hamburg and Bremen have the clearest claims to distinct and ancient identities. Elsewhere, however, Germany's old jigsaw pattern of principalities had often masked an enduring sense of regional identity. Baden and Württemberg, although formally combined only in 1952, share a Swabian tradition; Hessian is a long-familiar term; Lower Saxony lies in the old Saxon land (dynastic accidents moved the name of Saxony eastwards a mere 500 years ago). It seems natural, in such a country, to keep some balance between regional and central authority.



The federal force is with Strauss

EUROPE

changes were needed in a tax system designed to achieve what the constitution defines as "a reasonable equalisation" between rich and poor states. Six of the ten states involved in the system, known as the *Finanzausgleich*, had complained to the court about the way it works.

Three of the complainers—Baden-Württemberg, Hamburg and Hesse—were the only ones which paid money into the redistribution kitty last year, while two others, the Saarland and Bremen, think they do not get enough out of it. The sixth, North Rhine-Westphalia, wants to be compensated for the cost of supporting much of West Germany's coal and steel industry.

The states which kept quiet had good reason for their silence. While the depressed Saarland clearly qualifies for help, its much more prosperous neighbour, Rhineland-Palatinate, is a less obvious candidate. Lower Saxony, a big beneficiary from the system, manages to avoid having part of its tax revenues from oil and gas included in the *Finanzausgleich* calculations. And despite its claim to be the country's high-technology standard-bearer, Bavaria actually received a modest payment last year, thanks to its large stretches of unproductive forest and poor farmland. The constitutional court set the 1988 fiscal year as the deadline for the introduction of a fairer system.

The European Community is providing another test for West German federalism. The Saarland and Hamburg have already established "promotion offices" in Brussels. Other states are thinking of following their example in order to make their voices heard in EEC affairs. Officials in Bonn recognise the right of states to arrange direct representation in Brussels, but they worry that lobbying by strong-minded regional politicians like Mr Strauss or the energetic premier of Baden-Württemberg, Mr Lothar Späth, may embarrass the federal government.

As it is, some of its conservative-run states have recently given a couple of fine examples of the less constructive side of federalism. Bavaria, Baden-Württemberg and Rhineland-Palatinate are using their powers over regional broadcasting to resist a unified national policy on satellite television. They say that current plans for a national service would give public-sector broadcasting an unfair advantage over private television services. The result is likely to be a hodge-podge of satellite services, none of which may be big enough to compete effectively on a European scale.

Bavaria and its conservative neighbours would also like to stop West Germany signing an anti-torture convention drawn up by the United Nations. The convention forbids the expulsion of for-

eigners to a country where they run the risk of torture. Southern Germans, already worried about a recent influx of asylum-seekers from Asia and Africa, fear that it will become easier for refugees to stay indefinitely if the federal government signs the convention.

State men turn statesmen

The states are directly involved in legislation in Bonn through the upper house of the federal parliament, the Bundesrat, which has to approve laws affecting the interests of the *Länder*. The Bundesrat's 45 seats are distributed among the ten states and West Berlin—though the Berlin deputies do not have full voting rights—in proportion to their population (the smaller states have three seats, the bigger ones five). Its members are appointed by their state governments and are obliged to cast their votes as a block. This means that the composition of the upper house mirrors the political balance in the states and is altered if power changes hands in state parliaments.

In mid-June, the threat of a shift in the Bundesrat against Mr Kohl's centre-right government was averted when the Christian Democrats and the small Free Democratic party won a combined majority in

an election for Lower Saxony's state parliament. Victory in Lower Saxony would have given the Social Democrats a majority in the Bundesrat. As it is, Mr Strauss's Bavarians hold the balance of power in the upper house. So far, the Bavarians have not openly exploited their position to cause Mr Kohl any serious problems. But the chancellor's deference to Bavarian concerns on such matters as farm subsidies and the non-privatisation of the national airline, Lufthansa, not to mention control of border crossings from Austria, is a sign of the forces pulling at the federal patchwork.

One consequence of all this is that regional politics matter more in West Germany than in any other big European country. And most of the politicians who have made their mark at the federal level have done so from a base in the states. West Germany's president is an ex-mayor of Berlin, its federal chancellor is a former premier of Rhineland-Palatinate, and the Social Democrat who will be challenging Mr Kohl for that job in next year's federal election is the premier of North Rhine-Westphalia, Mr Johannes Rau. People who find that politics in Bonn at times lacks punch should look to the *Länder*.

French police

Midsummer madness

FROM OUR PARIS CORRESPONDENT

The protests about the killing of a young driver by an armed policeman on a Paris street were never likely to deflect Mr Jacques Chirac's government from its tough law-and-order campaign. Even though the death of Loïc Lefebvre on July 5th made many French people ask if harsh and effective policing were necessarily one and the same, the bombing four days later of the headquarters of a special police unit in the centre of Paris only

hardened the government's resolve.

The explosion, for which no group immediately claimed responsibility, killed one policeman and injured a score of other people. The prime minister had already announced that the number of policemen available to patrol the capital would be raised by 1,500, or 10%, early next year. This violence comes in the middle of a fierce debate about the conduct of the police, in which both sides

When the going gets tough . . .



now have a martyr.

Lefebvre was a 27-year-old car-painter who liked to drink and drive. Early on Saturday morning, he was driving home with a friend when his small Citroën was spotted near the Opéra, without lights and weaving dangerously, according to the police. A vanload of policemen belonging to the crack Compagnie Républicaine de la Sécurité (CRS) gave chase.

After colliding with another vehicle in a one-way street, Lefebvre left his own car and ran. A string of traffic offences leading to the suspension of his licence two years ago gave him motive to flee. Mr Gilles Burgos, a CRS policeman from Marseilles, seconded to Paris for special patrol duty, caught up with him moments later and apparently without further ado fired two shots from his heavy-duty gun. According to the police, Lefebvre was reaching for what Mr Burgos took to be a weapon of his own. On July 7th Mr Burgos was charged with manslaughter.

Although previous governments, including the recent Socialist one, have been criticised for tolerating roughneck policemen, the new government wants to be thought tougher than most. By publicly belittling the Socialist government's efforts to reduce crime in Paris, the new minister of the interior, Mr Charles Pasqua, recently provoked the resignation of the police chief the Socialists appointed in Paris. Just before Lefebvre's death, Mr Robert Pandraud, the number two at the interior ministry, had ventured that in the fight against terrorism and crime "all methods were good". Perhaps the politicians will now feel the need to lower the temperature, if they can.

The Crossroads affair

Just an ordinary French scandal

FROM OUR PARIS CORRESPONDENT

"Crossroads for Development" was the upbeat-sounding name given to a small agency which the Socialist government set up in 1983 to foster support in France for third-world aid. It has since become the label for a summer scandal. After the agency was wound up last January, it was discovered that FF20m-50m (\$2.9m-7.2m) of its budget was unaccounted for. Theories abound about where this money went. Crossroads came under the ministry for development, which keeps a close eye on French-speaking Africa.

The known facts centre on the treasurer of Crossroads, Mr Yves Chaliier, the former *chef de cabinet* of the Socialist aid minister. He is now missing. Before disappearing, he wrote the present aid min-

ister a letter of exculpation in which he said he was not going to take the blame for the affair alone. On July 9th, the authorities issued a warrant for his arrest.

A colleague of Mr Chaliier's, Mrs Marie-Danielle Bahisson, who worked for the Socialist minister for women's rights, has been charged in connection with the affair. So has Mrs Lucette Norbert, at one time described as a psychologist, who practises in fact as a spirit-healer. Also on the list is Ms Joelle Jaglain. She is an airline stewardess who appears to have gone with Mr Chaliier on several foreign jaunts and who may have had the use of a small flat in a smart part of Paris's fifth arrondissement.

Mr Chaliier's taste in property does not seem to have been limited to Left Bank studios. In July 1985 an offshoot of the aid association acquired a chateau in shooting country south of Paris. Five months later this was resold to a property company owned by Mr Chaliier and Mrs Bahisson. Investigators also want to ask Mr Chaliier about ghost-companies which seem to have overbilled the French government for arranging a Franco-African conference in Burundi under the auspices of Crossroads.

None of this would mean all that much if the circle of suspicion had not spread wider. On several of the cheques for doubtful payments appears the name of Mr Christian Nucci, the aid minister at the time. Mr Nucci has denied all involvement in the affair, said that his signature was forged, and threatened to take proceedings against those who continue to link his name with the scandal.

Where Crossroads leads, nobody knows. The present minister for development, Mr Michel Aurillac, unearthed the scandal in April soon after taking over the department. In 35 years of public service, he announced with a mixture of sorrow and satisfaction, he had never come across an affair of such magnitude. From what is known, or claimed, so far, this seems to be an exaggeration. Unless the affair is traced to senior officials near President Mitterrand, or unless a solid link is made with the Socialist party, the scandal may fade with the summer. Just as one cannot libel the dead, so scandals about defunct governments are difficult to keep on the boil.

Arms control

Privatising it

A group of American scientists has gone to the Soviet Union to do what hardly seemed possible a few years ago: set up seismometers around the main Soviet nuclear test site at Semipalatinsk in Ka-

High jynx?

FROM OUR PARIS CORRESPONDENT



Look out, Jacques

Is this the rock that starts the avalanche? Probably not, but France's prime minister is right to cock a concerned ear. On July 8th, the country's constitutional court annulled the results of the parliamentary election last March in two departments, Haute-Corse and Haute-Garonne, which includes Toulouse. By-elections will have to be held within the next three months for the ten parliamentary seats involved. These elections could in theory strip Mr Jacques Chirac of his parliamentary majority and bring down his government in the autumn.

In Haute-Garonne, the court ruled, an unradical Socialist was wrongly prevented from entering an independent list of candidates in competition with his own party. In the Corsican department, there had been widespread misuse of proxy votes. The ten deputies from these two departments now lose their parliamentary seats. Yet the balance of power in the National Assembly stays the same for the moment: in Haute-Corse, the left and right have a seat each; the eight seats in Haute-Garonne are also equally divided between Socialists and conservatives.

This five-five split is fairly reassuring for Mr Chirac. It would take a heavy swing against the conservatives to bring his government down. At the moment, Mr Chirac has the support of 291 members of the 577-member National Assembly. Three defections—or a loss of three seats in the by-elections—would be needed for him to lose a vote of confidence.

So even if the conservatives won only three of the ten by-election seats, Mr Chirac would still have a one-vote margin in parliament. This does not count possible defectors to Mr Chirac's party from the far-right National Front, which is struggling to keep its 34-member parliamentary group from bursting apart.

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zakhstan, and then stay to monitor the results. The United States has always argued that a complete nuclear-weapons test ban is worthless without monitoring teams in place to check that it is being observed. Until recently the Russians had refused all proposals to allow foreign observers on their soil, claiming that they would be spies. Lately, however, they have seemed to be changing their minds; and allowing in the American scientists is clearly meant to be a sign that the mind-changing is serious.

Two cheers, not yet three. The team is a non-governmental one, sponsored by the American National Resources Defence Council, an environment-protection organisation which disagrees with the Reagan administration on many issues. Its monitoring project, arranged as part of an agreement with the Soviet Academy of Sciences, is due to last for only a year. And for the moment at least the Russians are not conducting any nuclear tests—their self-imposed moratorium runs until August 6th.

Nevertheless, the American team will be able to record accurate seismological data. Three surface seismographs will be placed in a triangle, each about 100 kilometres from the test site; and three more will be put in 100-metre-deep holes in a few weeks' time. Small nuclear explosions can be made hard to detect by firing them during periods of high, but natural, seismological activity. So data recorded by the team could be useful in establishing the seismic background noise around Semipalatinsk. Some time this autumn a team of Russian seismologists is expected in the United States to take the same sort of measurements around the Nevada test site.

The main purpose of allowing in the American team was undoubtedly to score public-relations points. Mr Gorbachev has been putting great pressure on the United States to agree to a complete test ban. The Americans, who do not want such a ban, are reasonably happy with the present testing limits: these say that underground tests only are permitted, and

these cannot exceed 150 kilotons of explosive power (equivalent to 150,000 tons of TNT).

The Americans accuse the Soviet Union of violating the explosive-power limit, and in April proposed that it send a team to their Nevada test site to observe both a test and the operation of a new device which is said to measure the explosive power quite accurately. The Russians refused to come. They are after a complete ban, and therefore want nothing to do with measuring the precise power of American explosions, or having the power of their own measured.

The Reagan administration opposes a complete ban for several reasons, the chief one being that some testing will be needed so long as there are nuclear weapons. But it made a tactical error in pinning its main argument to the difficulty of checking that the Russians were observing a complete ban. Although the seismic devices planted near Semipalatinsk would not necessarily detect a covert test carried out elsewhere in the

Czech-mate at tennis

FROM OUR CENTRAL EUROPE CORRESPONDENT

When a collectivist nation of only 15m people produces three of the four finalists for the ultimate prize in the most individualist of sports, something odd is clearly up. The ex-Czechoslovak Martina Navratilova retained the Wimbledon women's tennis singles against her former ball-girl, the Czechoslovak Hana Mandlikova; Ivan Lendl lost—to young Boris Becker from West Germany—the men's singles final, but on any surface other than grass he is still the world's number one. The Americans, Australians and Swedes long since pushed aside the game's British inventors. Now they have yielded primacy to the not-so-red menaces from central Europe. Why?

Czechoslovakia has a powerful tennis tradition. The great Jaroslav Drobný was Wimbledon champion in 1954. Jan Kodes won the same title in 1973. They became national heroes, with a chance to travel the world that few of their countrymen enjoy. While most communist governments tend to frown on individualists as well as individual freedoms, the Czechoslovak authorities recognised a good thing when they saw it.

They have encouraged the building of more than 4,000 courts and the formation of at least 700 registered tennis clubs, some of them for children as young as seven or eight. At ten years of age, promising tots can enter the first of the selection tournaments which weed out the merely excellent from the brilliant. The brilliant are then trained at six special centres, where ordinary schooling takes second place; they spend at

least five hours a day working at the game. Heredity can help. Mr Lendl (born in 1960) started playing at six: his father was ranked 15th in Czechoslovakia, his mother second among the ladies. Today he owns a clutch of Porsches, a house in Connecticut—and, still, Czechoslovak citizenship.

The authorities took time to learn how to handle the phenomenon of tennis stars. They hassled Miss Navratilova, especially on matters like her hard-currency earnings, until she decided (at Forest Hills, in 1975) not to go home. Now Miss Navratilova is to be allowed into Czechoslovakia later this month to play for America in the women's Federa-

tion Cup. Czechoslovak television still does not show Wimbledon live, but Miss Mandlikova's parents have been given a special satellite dish so that they could watch her triumph on West German television.

The hard-currency question seems to have been more or less sorted out. The authorities used, it is said, to demand at least 60% of foreign earnings; now they have settled for about 20%. Even 15-year-olds are given freedom to travel to the West for junior tournaments, if they are good; the rewards (and the relatives) at home make it worthwhile to return. The country whose present politics were shaped by Russian tanks on the streets of Prague now rejoices in its sportspersons' glory, and benefits from their hard-currency wealth. It is good business all round.



Businesslike skills from Navratilova and Lendl

Rent-a-ruin

FROM A LISBON CORRESPONDENT

Portuguese who rent their homes, instead of owning them, ended a 38-year holiday this month. A rent freeze decreed in Lisbon in 1948 and extended to the whole of Portugal in 1974 has at last been brought to an end. Under a new law, rents have been allowed to rise again—by as much as 300% for those fixed before 1960—and from now on they will be open to adjustment for inflation each year. About time, too. The freeze had helped to bring decay to many buildings, and distortion to the housing market.

A rent rise of 300% is not, in Portugal, always as bad as it sounds. Three times Esc200 (\$1.35)—the monthly rent paid by one old lady with several servants for a maisonette in an area of elegant ambassadorial residences—will not break the tenant. Nor will it make millionaires of landlords who acquired inherited property decades ago, expecting a reasonable income from it, but found themselves with decaying buildings they could not afford to repair and nobody wanted to buy. Tenants grumbled louder each year about the awful state of their homes. But their tiny frozen rents of between Esc40 and Esc1,000 a month were hardly inducements to landlords to bring in the stonemasons. No wonder about one building a month collapses in Lisbon.

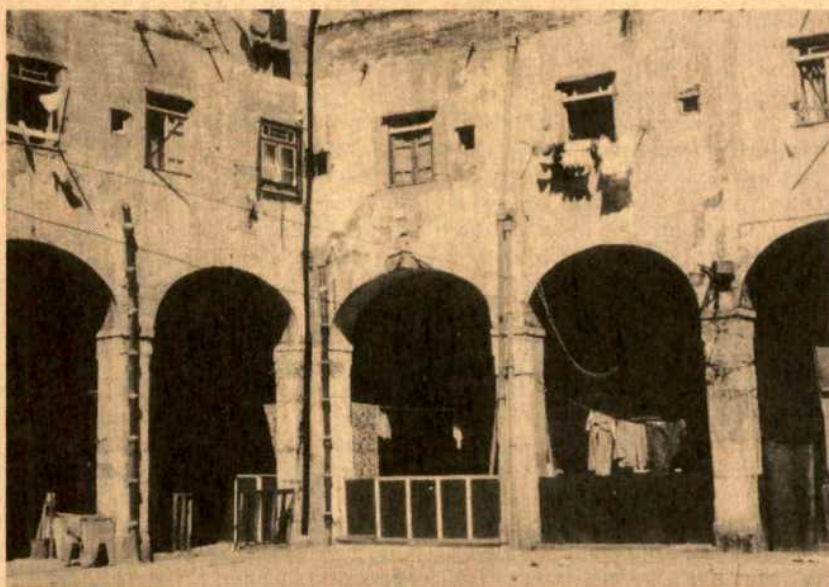
And no wonder some 700,000 Portuguese families are without a home of their own. Few property-owners have wanted to become house-landlords. In-

stead, many tenants in cheap flats have earned fortunes by illegally sub-letting cramped space at thousands of escudos a month. Often ten or 20 lodgers (known as "guests", and by law each tenant is allowed to have at most three of them) are jammed into 100-year-old firetraps. In May, eight people died when a clandestine "pension" in the attic of a once-elegant building on Lisbon's Avenida da Liberdade burst into flames.

To get round the freeze, owners have

been demanding exorbitant "key money", an illegal lump-sum payment supposed to cover rent depreciation over the years ahead. Couples seeking a modest new flat could find one for about Esc25,000 a month—if they paid several million escudos' key money. Result: hundreds of unoccupied new buildings nobody can afford to rent on Portugal's meagre wages.

Under the new law needy tenants will receive rent subsidies. Landlords will pay more tax on their increased rents, which will usually still be too small to cover the cost of repairs. Portugal's housing mess is not over yet.



Repairs overdue

Soviet Union, allowing even non-governmental American scientists to set up seismic listening posts in the Soviet Union will increase pressure on the Reagan administration to talk about a total test ban.

Soviet Union

Invisible danger

Ever since the Soviet Union's leaders decided to come clean and admit to the seriousness of the nuclear accident at Chernobyl in the Ukraine, the Soviet press has been peppered with tales of derring-do by those who have worked at the site to make the stricken nuclear reactor safe. Many people have obviously shown great bravery in coping with the disaster. Yet safety precautions are still not all they might be.

Special tractors are now being used in fields not far from the danger area. These protect the drivers from contaminated dust, but that says little about the safety of the food the farmers are expected to

produce from their fields. On July 4th, *Komsomolskaya Pravda* reported that workers at the Chernobyl plant got a soaking when a hose pumping contaminated water from beneath the reactor was run over by a truck. Four days later Tass revealed that the authorities in Kiev were building a vast new water system for the city, despite repeated assurances that water in the area was safe. A recent report that Mr Boris Shcherbina, the head of the commission investigating the accident, had been replaced led to morbid speculation that he might be ill as a result of his visits to Chernobyl.

Although radiation checks are still in force at food markets, some residents of Kiev seem to put more faith in superstition than in geiger-counters. Alcohol consumption in the city is said to have increased sharply because of a belief that booze can beat radiation. Even in Moscow's central peasant market, customers ask not "how much?" but "where from?" before they buy. The franker reporting does not seem to be calming the worries of many Russians.

Greece and Turkey

You say I'm going to hit you?

FROM OUR ATHENS CORRESPONDENT

Those old rivals, Greece and Turkey, are at it again. By exploiting his country's membership of the EEC to obstruct the development of links between the Community and Turkey, the Greek prime

Greeks still remember Smyrna in 1922



EUROPE

minister, Mr Andreas Papandreou, has been seeking to wrest concessions from the Turks, on Cyprus and security in the Aegean among other matters. One result of his tactics has been to cause intense feelings of frustration in the Turkish capital, Ankara. It was in this tense atmosphere that Turkish troops recently practised landing exercises in the Aegean within sight of the Greek islands; and that the Turkish prime minister, Mr Turgut Ozal, visited Turkish-held Northern Cyprus on July 2nd-4th.

Hitherto Mr Papandreou's government has been unable to get other EEC members to believe its tirelessly reiterated complaints about a supposed Turkish military threat to Greece. Mr Ozal's recent actions may have given the Greek side some help in that direction.

When he received a group of journalists from Athens last month, Mr Ozal duly accused Greece of taking every opportunity to restrict Turkey's access to the European Community. He went on, however, to suggest that the Greek talk of a Turkish threat was a provocation to Turkey: enough of one, it seems, to make Turkey actually feel a bit threatening. Clumpingly, Mr Ozal pointed out that the Turks outnumber the Greeks by five to one.

The EEC summit in The Hague on June 26th-27th provided an opportunity for Mr Papandreou to re-state his objections to an unconditional normalising of Turkey's relations with the Community. He insists that two conditions be met before Turkey's association agreement, frozen since the military takeover in Turkey in 1980, can be reactivated. These are, first, that Turkey rescind a 1964 decree which discriminates against Greek property-owners in Turkey; and, second, that Greece be exempted from an EEC commitment to allow free movement of Turkish workers in the Community, starting in December. Mr Papandreou came away from the summit with the feeling that he had been listened to with respect.

Greece has not been able entirely to block the slow development of the Community's relations with Turkey. The other members have used Community procedures which do not require unanimity to release \$10m-worth of aid for Turkey, and to arrange for the Turkey-EEC association council to meet on September 16th, despite Greek objections. But on July 3rd Greece asked the Community's new British presidency to postpone the association council meeting at least until November, as a mark of EEC disapproval of Mr Ozal's visit to Cyprus.

Mr Ozal's outburst last month revealed his bitter feelings at what the Turks call Greece's "sustained hostility". Mr Papandreou's refusal to sit at a negotiating

table with him, unless Turkey pulls its troops out of Cyprus and makes equally unimaginable concessions in the Aegean, is assuming the dimensions of a personal affront.

Mr Ozal now seems inclined (and has strong domestic political reasons) to raise the stakes by putting in an application for full EEC membership before Turkey's 1988 election. But he knows that Turkey cannot become a member of the Community without Greece's approval.

EEC budget

Ever upward

FROM OUR BRUSSELS CORRESPONDENT

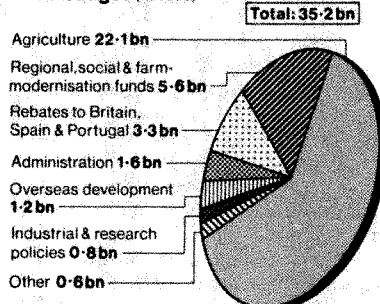
Once again, the EEC has decided to spend its way out of trouble. The way the Court of Justice, the Council of Ministers and the European Parliament have handled the latest budget fuss does credit to EEC institutional interplay. Taxpayers have less reason to rejoice.

When the Court threw out the Parliament's version of the 1986 budget on July 3rd, it ruled that the Parliament overstepped its powers by voting for a budget that exceeded the ministers' version by 600m ecus (which is roughly equivalent to the same amount in dollars these days). The judges said the purpose of power-sharing between ministers and parliament was to reach an agreement on the budget. One side had no authority to impose its version on the other.

But when the Twelve met in Brussels four days later to put together a new budget, they added extra spending well beyond the 600m ecus which caused the row in the first place. In went an additional 2.5 billion ecus: 1.1 billion on farm

Where the money goes

Allocation of EEC funds in the 1986 budget (in ecus)



Source: EEC Commission

support, 750m on regional and social funds and 650m in cash rebates to Britain, Spain and Portugal. The argument for bigger farm spending is that the fall in the dollar has raised the cost of getting rid of EEC food surpluses on world markets. The rebate to Britain (more than 500m ecus of the extra 650m ecus) is needed because the Community's accountants have discovered that Britain paid too much into the Brussels kitty last year.

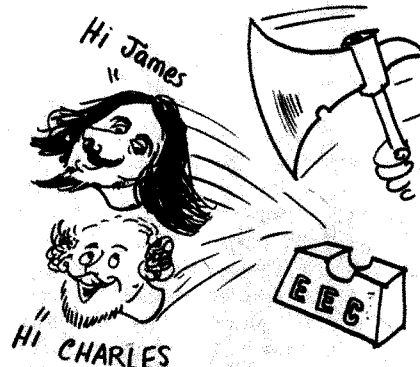
The Parliament, which was to vote on the new budget on July 10th, was expected to go along with the ministers' new version. For one thing, the ministers gave them more or less what they wanted on the regional and social funds. For another, the proposed new budget of 35.2 billion ecus brings the Community to within 50m ecus of its present ceiling, set by the 1.4% limit on member-states' value-added-tax receipts to be handed over to Brussels. Euro-MPs could not therefore squeeze much more in if they tried. And of course the court ruling prevents them from taking matters into their own hands, anyway.

Unauthorised version

FROM OUR BRUSSELS CORRESPONDENT

Mr Federico Mancini, the advocate-general of the European Court of Justice, drew almost audible gasps of admiration for his erudition when he sketched parallels between the European Parliament's bid for more budgetary authority and seventeenth-century English history. Summing up the case before judgment, he asked their lordships: "Who does not remember the trial of strength between the House of Commons and James I?" Mr Mancini should take another look at his history books.

The trouble is that Mr Mancini was almost certainly referring not to James I but either to his son Charles I, whose struggle with parliament lost him his head, or to his grandson James II, whose struggle with Parliament lost him his crown. James I, whom Macaulay de-



scribed as "the wisest fool in Christendom", is better known as the instrument of Scotland's reverse takeover of England and as the patron of the Authorised Version of the Bible—one of the finest monuments of English literature.

BRITAIN



Thatcher's reluctant messenger

The attitude of the South African government to the visit by Britain's foreign secretary, Sir Geoffrey Howe, has raised the political cost of Mrs Thatcher's opposition to economic sanctions. Sir Geoffrey left for a tour of front-line states on Tuesday with an invitation from President Botha conspicuously absent from his itinerary. That day, Mrs Thatcher told MPs that a date for Sir Geoffrey's meeting with Mr Botha had been agreed. But it was still unclear when the meeting would take place. It could be as late as the last week of July—probably after the British parliament has risen for its long summer break. That would cause a political row, but it might suit Mrs Thatcher and the South African government: the closer any

concession is to the Commonwealth meeting, in the first week in August, the greater the hope of influencing the Commonwealth prime ministers.

They show little sign of being open to influence. Sir Geoffrey's reception in Lusaka and Harare has been icy. Zambia is openly threatening to leave the Commonwealth. In time, Mrs Thatcher will almost certainly be dragged, scratching and biting, into the sanctions lobby. That would be an even greater defeat than her public statements on South Africa imply. The full extent of Mrs Thatcher's commitment to resolving the crisis is said to be shown in an exchange of personal letters between herself and President Botha. This correspondence, which has continued

since the president's visit to Britain in June 1984, seems to have been prompted by Mrs Thatcher's belief that she could pull off a diplomatic coup in South Africa similar to the one that her admirers think she achieved over Zimbabwe in 1979. Her belief was strengthened by the near-collapse of America's influence over Pretoria, leaving Britain as the only country at all friendly to South Africa.

Mrs Thatcher has sought in her letters to emphasise her agreement with much of what President Botha has been trying to do, as well as her continued antagonism towards communism and the terrorism of the African National Congress. She has been keen to point out that she does not agree with the more bellicose statements of the Commonwealth and EEC. Nonetheless, she has stressed the growing cost to her internationally of her continued opposition to sanctions. For her, the most important pay-off would be the release of Mr Nelson Mandela.

Those who have seen the correspondence have been surprised by the intransigence of Mr Botha's replies. He has been mystified that a leader so ostensibly opposed to revolutionary groups should tell him to recognise the African National Congress and to release Mr Mandela, and should permit her ministers to talk to ANC representatives in London. Yet apart from his agreement to co-operate with the Commonwealth Eminent Persons Group, he has given not an inch to Mrs Thatcher. He has risked turning her from highly vulnerable ally into disappointed critic. It is a measure of Mr Botha's current mood that he appears not to care.

Everything now depends on whether Sir Geoffrey can stall the front-line states long enough to allow Mrs Thatcher to bring more pressure on Mr Botha. The longer unrest continues in South Africa, she appears to believe, the nearer Mr Botha must come to releasing Mr Mandela, if only as a moderating force. But will this happen in time?

Pay

Too much

If British firms do not control their labour costs, they will lose market share and hence jobs. So says the prime minister. And so, this week, said the Confederation of British Industry, in a paper pre-

BRITAIN

sented to the National Economic Development Council.

But many company bosses do not understand what the government is fretting about. Three out of four businessmen questioned last month by the Institute of Directors did not feel they were facing unreasonable pay demands from trade unions; pay settlements were, they claimed, fully in line with performance and productivity. The disagreement between the government and industrialists centres on two issues: first, whether the Department of Employment's indices for earnings and unit labour costs are accurate; and second, what counts as an acceptable level of wage costs.

The official figures for average earnings in manufacturing show that they rose 8% in the year to April, while unit wage costs increased by 7.6%. Many businessmen claim that their own wage costs have not risen anything like as fast as those figures suggest. Wage settlements reported to the CBI were up by an average of only 6½% over the past year. Are the official figures overstating the rise in wages? Probably not:

- The CBI reckons that the gap between pay settlements and the rise in earnings can be explained by various additional wage costs which company bosses tend to overlook. According to a survey of 50 big firms, overtime payments and productivity-related bonuses accounted for three fifths of the gap in 1985. Employers sometimes use productivity gains to justify basic pay settlements and then forget the productivity-related payments which have bought them.

- The gap between basic wage settlements and earnings may be partly explained by the change in the composition of the workforce. In recent years, redundancy has fallen most heavily upon low-paid unskilled workers, and the proportion of higher paid—and more productive—workers has risen, inflating the average wage. Again, employers may recognise the sizeable productivity gain,



Early leavers

Civil servants are not, by and large, a flighty bunch. But more of them are now leaving Whitehall in mid-career. Not a single assistant secretary or senior principal resigned between 1981 and 1983. In 1984, 24 assistant secretaries and 31 senior principals left; in 1985, 19 and 31. In 1981, 34 principals resigned (that is the grade a high-flier would expect to reach between 28 and 30); in 1985, 67.



One reason they leave is pay. For instance, a newly-qualified accountant can earn £1,500-2,500 more a year outside Whitehall than in it. To try to bridge that gap, Whitehall last year introduced a bonus of up to £1,600 a year for qualified accountants. Another reason is promotion prospects, constrained by cuts in the numbers of civil-service jobs, and by Whitehall's preference for promotion on seniority rather than on merit. Many administrative trainees can now expect to spend ten years stuck at princi-

pal level.

Lots of civil servants, especially in the Department of Trade and Industry and the Treasury, have been wooed to high-paying jobs in the City. Of the 43 assistant secretaries who left the service in 1982-85, 11 were from the DTI. Fully qualified tax inspectors, too, are leaving: in 1985, 12 tax inspectors at senior executive level left. Another 13 went in the first quarter of this year.

As it is mainly the brighter and more original civil servants who leave for jobs in the world outside, Whitehall fears that it risks being run by the safe and the mediocre in the future. The Treasury believes it has recently lost half a dozen potential permanent secretaries; unwisely, it failed to tell any of the leavers how golden their prospects would have been had they stayed. The outflow costs money. About 100 graduates are taken on as administrative trainees each year. It costs an average of £12,000 to select each one of these. Three years of training and salary then cost a further £40,000 each.

It has become harder to pick people bright enough to justify this expense. In 1985, 17% of the candidates offered jobs turned them down. Some skills are said to be especially hard to recruit; only 50% of last year's jobs for lawyers were filled. The easiest vacancies to fill are in the fast stream of the diplomatic service. New graduates still like the idea of an ambassador's mansion.

but still ignore the increase in average wages over and above the basic pay settlement.

When firms claim that pay rises are in line with productivity gains, their perception of productivity may be quite different from the official numbers. In practice it is hard for firms to measure changes in their own productivity in the way the government does—ie, the volume of output per worker. Firms produce a wide range of products that cannot easily be condensed into a single volume index. Therefore firms tend to use value figures, such as value added or sales. But the choice of deflator, to make allowances for the effect of inflation, can make a huge difference—and lead to misjudgments when estimating unit wage costs.

Maybe the proof is in the eating. If wages are really rising just in line with productivity, then why, when raw-material costs are falling, have industry's output prices risen by 5% over the past year?

Companies have found it easier to believe that their unit labour costs are satisfactory because, for the past four years, profits have been booming. But a glance at the chart shows that compared

to its main trading partners, Britain's performance is terrible.

By allowing their profits to boom—instead of selling more goods on thinner margins—firms have behaved very like their workers have done in choosing high real wages. Bigger profit margins rather than increased market share; higher real wages, rather than more jobs.

Local privatisation

Little by very little

Privatisation of council services is going at a snail's pace. That is the message—though not one its authors pick up—of the fourth annual privatisation survey conducted by the magazine *Local Government Chronicle*.

The magazine found that 60 out of 373 councils answering a questionnaire had privatised something in the financial year 1985-86. That is 16%, up from 11-13% in previous surveys. And another 43 councils were considering the idea, up from 27 a year earlier. But county councils, which spend vastly more than the districts below

them do, had little to report. And the sums involved are tiny: the nationwide survey lists contracts worth around £11.5m a year. By comparison, in 1985-86, local councils' current spending—some, of course, already privatised, and much not easily privatisable—totalled about £31 billion. Even the services that Whitehall regards as best suited to privatisation—rubbish collection, cleansing, catering, vehicle and land maintenance—cost well over £2 billion.

The absolute sums saved were mostly small. But the percentage savings from in-house costs were not. Consider the three significant switches to contracted-out refuse collection. Tory-run Solihull expects private-sector dustmen to cut its £1.6m bill to £1.1m; at Sevenoaks costs will fall from £380,000 to £230,000; at Arun (Tory at the time, now Liberal) from £1.1m to £800,000. Wandsworth reckons to lop one-third off a £1.6m bill through private-sector caretaking, and to do better than halve £190,000 of office-cleaning costs. Enfield will save a quarter of £230,000 spent on security.

Privatisation reported was not all of the mop-and-dustbin variety. At Torbay, it was bucket-and-spade: the council leased out the running of Babbacombe beach. Chichester expects to save £20,000 a year by hiving off its art gallery to a new charitable trust. Southend council, a pioneer of conventional privatisation, arranged for the leisure company, Brent Walker, to manage its pier—happily, just before a sludge-dumping ship last month cut the pier temporarily in two.

Of the 60 privatising councils, 34 were Conservative-controlled, led predictably by Chester, Solihull and Wandsworth. Only ten were Labour. But Peterborough's Labour council reported contracts worth £1.1m.

In contrast, 21 councils brought some services previously contracted-out back in-house. Surprisingly, nine of these were Tory. The ten Labour councils could well be more numerous next time round. Councils such as Sheffield and Slough, opposed in principle to privatisation, are reacting against government warnings that the law may be changed to force them to put services out to tender. An anti-privatisation conference last November suggested various defences, from "privatisation audits", to see what could be brought back in-house, through to looking at specifications that would be difficult for contractors to meet. More positively, Labour councils propose extensions of municipal enterprise (St Helens runs a funeral service, for instance) and improvements in its quality. Labour is using this interpretation of "value for money", rather than the simple measure of cash saved, as the central theme of its

fight against privatisation.

Local Government Chronicle hopefully suggests that its survey, showing a rising number of councils ready to consider privatisation, might discourage the government from forcing all of them to do so. With a privatiser like Mr Nicholas Ridley now heading the Department of the Environment, that was never likely. The survey's evidence of foot-dragging gives him ample support for calling in the law. Which, he let it be known this week, is just what he is going to do.

Women priests

Towards schism

Now it is all up to the bishops. The meeting of the Church of England's general synod at York decided to refer to them the report by Professor David McLean outlining various options facing the church if it were to ordain women to the priesthood. The bishops will report back in February, by when tempers may be cooler. Meanwhile, supporters and opponents of the ordination of women as Anglican priests are rethinking their tactics. Despite the temporary truce, the Church of England remains deeply divided.

The report suggested that there might



What God never intended?

have to be separate parishes or even dioceses if some bishops refused to ordain women, or male priests refused to accept them. That clearly upset the synod. "To speak of parallel episcopates not in full communion is to legitimise schism," said the Archbishop of Canterbury. Support-

Take a letter

About 6.5m letters drop every year on to the House of Commons mat, according to a survey published last week. The average member of Parliament gets 33 letters a day. MPs representing the leisurely south-west get most post, Ulster MPs the least.

The 196 MPs who filled in the questionnaire sent them by the Letter Writing Bureau said that housing was the most frequently-mentioned problem in their postbag, then social-security benefits,

followed by education.

Although the art of letter-writing is not dead, it is not quite flourishing. Three-quarters of MPs find up to 20% of their mail hard to understand. They try to act on the rest. One in four said they had received a letter which has helped to change government policy, but that sounds like delusions of grandeur. A more credible 75% said they had received letters which had changed their own views.

The Letter Writing Bureau is delighted to find any reason for the public to write letters. Its investigations are sponsored by paper and pen manufacturers and sellers, the Post Office, and educationalists who think letter-writing a good thing.

The bureau's earlier inquiries have persuaded it that the telephone has done nothing to deter Britain's scribes. In 1984-85, they sent 695m personal letters, 53m more than in 1981-82, and spent £200m on stationery. Telephone-owners are more likely to send letters than the phoneless. The average British letter-writer sends 41 letters a year, of which more than 16 go to friends rather than the taxman or the bank. In 1885, the average letter-writing Victorian sent only 20.



More fun than phoning

BRITAIN

ers of women's ordination claimed that the committee which drew up the report had been hijacked by the traditionalists anxious to scare the church into abandoning its original 1975 decision in favour of the principle of ordaining women. The opponents of women's ordination are clearly a lot stronger in the present synod (elected last year for a five-year term), than they were in the last, which in 1984 had mustered almost enough votes to turn the 1975 decision into policy.

The opponents' new strength was reflected in the defeat of the proposal to allow women ordained abroad to conduct services in Britain, at the invitation of a parish priest and council and with the permission of the local bishop. That vote was an early indication that legislation to ordain women as priests has no chance of

a two-thirds majority in this synod. The vote to put the matter in the hands of the bishops was a way to allow both sides to claim that they had won. That is what they are doing.

Some supporters of women's ordination may not be prepared to wait until February. A parish, for example, may invite a carefully selected guest from one of the Anglican churches abroad that already ordain women as priests. Some bishops would be sympathetic, though neither they nor the official lobby for women's ordination would want to be seen to initiate a service conducted by a woman. If one did take place, the local bishop would be pressed to act against the vicar concerned, and some people would try to censure the bishop if he did not act. Controversy may revive well before February.

Army land

Trouble in Eden



The battlefield

Deep in Cumbria, the British army has crossed swords with modern rural England. In May last year, the army applied to Eden district council to use as a bullet-free training ground 800 acres of Stainmore, just east of the town of Brough. Five landowners were offering to sell this uninhabited patch. The army already has a 24,000-acre training ground at Warcop, a few miles to the west. But the troops at Warcop use live bullets, making it too dangerous a spot for practising the safer

arts of soldiery—map-reading, trench-digging, patrolling and mock battles. Dry training, as these are known, has to be done at Otterburn in Northumberland or Catterick in North Yorkshire, some 1½ hours' drive away.

Stainmore would be a good place for dry training. But the proposed small deal has caused big trouble. The land hangs high above the beautiful Eden valley, in view of the slowly-growing trickle of tourists along the A66 main road. The

200-odd local residents fear this will be dried up by the sight and sound of war games going on above. And they were extremely cross that the first they heard of the army's plans was from their radios. A Stainmore action group (with the acronym KAOS: Keep the Army Off Stainmore) was formed.

Relations between the army and the group have been bloody. Both sides say the other failed to attend meetings arranged to sort things out between them. At the height of hostilities, one weekend in June 1985, the army banned troops at Warcop from going into Brough, for fear of unpleasantness (a ban which, according to one local, would have cost the Cumbrian economy £100,000 if extended for a week).

Eden District Council refused the army planning permission. The case went to the secretary of state for the environment who decided a public inquiry was in order. Only one of the landowners attended the first day of the inquiry last week. He said that the other vendors thought they would be harassed if they showed up.

Stainmore's bellicose residents are mainly the craftspeople, commuting teachers, muck-and-magic farmers and retired folk who have moved in over the past ten years. They live off just the kind of tourist-dependent, entrepreneurial rural economy favoured by go-ahead Tories. The action group's lobbying tactics have been reminiscent of North London: not surprisingly, for that is where the organisers learnt them. They say the real natives welcome their expertise. The group has gathered 1,776 signatures for its petition, and the backing of green groups from the Countryside Commission to the Ramblers Association to Rural Voice. Even the army admits the protestors won the public relations battle.

Yet the army does need more space. Some five years ago, one of the four divisions of the British Army of the Rhine was moved from Germany to York. The number of Territorial Army part-time soldiers, who train at weekends, has grown from 59,000 in 1979 to 77,500 now and will reach 86,000 by 1990 under the government's expansion plan. And each soldier needs more space to train as the range of modern weapons increases.

So the army, for a start, is trying to close to the public the land it already owns. This week, it got permission, after an angry public inquiry in 1984, to close 30 miles of public footpaths on its Larkhill ranges in Wiltshire. Those paths have been kept open, except on firing days, throughout decades of Royal Artillery use. Secondly, it is trying to buy extra land on the edges of its six principal training grounds. Warcop is one of these,



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U.S. Government Securities	
Direct and Guaranteed	34,474,089
State and Municipal Securities	213,584,217
Federal Funds Sold	115,000,000
Loans and Discounts	295,551,078
Customers' Liability on Acceptances	16,304,838
Interest and Other Receivables	37,900,499
Premises and Equipment, net	19,279,437
Other Assets	6,874,106
	<u>\$934,724,111</u>

LIABILITIES

Deposits	\$812,786,549
Federal Funds Purchased	17,450,000
Acceptances: Less Amount in Portfolio	16,784,838
Accrued Expenses	12,600,573
Other Liabilities	13,182,151
Capital	24,000,000
Surplus	37,940,000
	<u>\$934,724,111</u>

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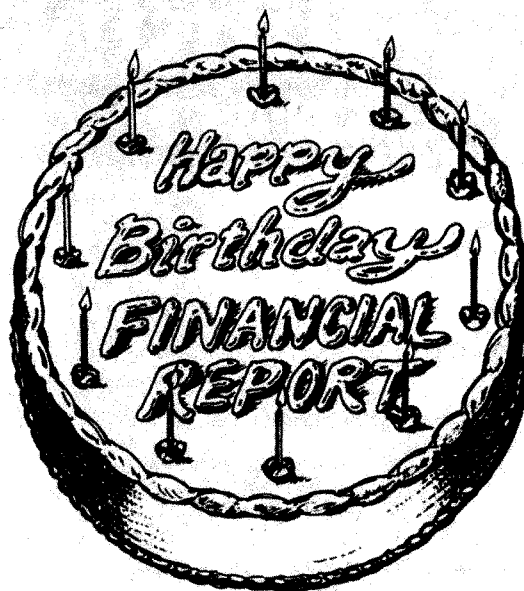
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	Half year to 30th April 1986 £m	Half Year to 30th April 1985 £m	% Change	Year to 31st October 1985 £m
Sales	604.6	551.9	10	1,244.5
Trading Profit	44.7	42.1	6	142.3
Interest	(13.5)	(12.7)		(27.2)
Trading Profit after interest	31.2	29.4	6	115.1
Property and investment disposals	0.8	6.5		8.0
Share of profits of subsidiary company not consolidated	4.1	3.3		6.5
Profit before Taxation	36.1	39.2	(8)	129.6

The above figures are unaudited and accounting policies are as stated in the last annual accounts
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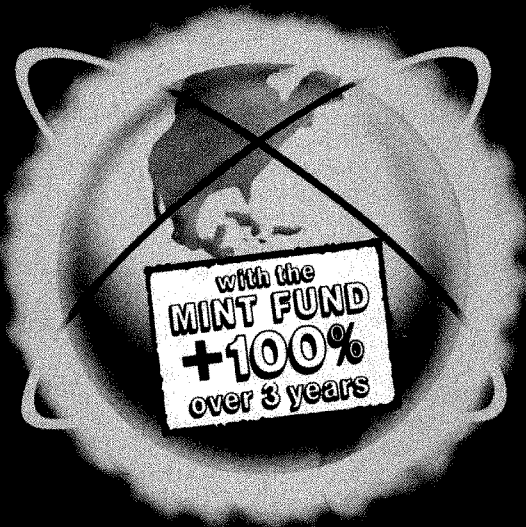
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A hole in the ground

The British end of the Channel tunnel is in a twist: the public is uneasy, financiers not yet convinced, the parliamentary timetable tight

It is the possibility of an early general election in Britain that has aroused fresh questions about the Channel tunnel. The French and British governments remain committed to the concept—a rail-only tunnel—to which the two countries put their names last February. Doubts arose whether France would remain committed after the right-wing electoral victory there in March, and the appointment of Mr Jacques Chirac as prime minister. These doubts have been stilled, even though notions of a combined rail-road link are still circulating in France. The doubts now are on the British side.

One springs from public opinion. The latest poll shows 46% of Britons against the tunnel, only 31% for. More important, though, than this perhaps alterable dislike is the deep hostility of the green lobby and of those whose lives or liveli-

hood in Kent might be disrupted. third reading in December, with royal assent in the spring of 1987. The objectors will seek to prolong every step of this process. Though they may be fought off in the Commons, they look confidently to support, perhaps even defeats for the government, in the Lords.

Enter the possibility of an early election. The government's decision two weeks ago to postpone privatisation of the water authorities suggested it wanted the decks clear so that the prime minister could, if she chose, call an election next year rather than in 1988. And parliamentary convention says (though there is some dispute) that a bill overtaken by a general election falls to the ground.

Even if the Tories won again, the Chunnel legislation would have to start afresh. A new Labour government, though welcoming the work brought by the Chunnel, and bound—as it would be—by its predecessor's agreement with France, would have different priorities for parliamentary time, and might add fresh conditions to any legislation when it did at last appear.

Meanwhile, in the City

None of this may happen. But parliamentary uncertainty does not impress financiers. Impressed they have to be. The British government refuses to put a penny into the project.

So the markets must raise the entire capital cost. The sponsors—the Channel Tunnel Group and France Manche, now known jointly as Eurotunnel—estimate this at £6.2 billion, at January 1986 prices, made up thus:

	£m
Construction and equipment	2,525
Optional extras	101
Owners' costs	296
Basic cost	2,922
Inflation allowance	660
Interest during construction	1,152
Finance fees and costs	114
Contingencies	1,350
Total (approx)	6,200

Most of the money is to be borrowed: £4.2 billion from the banks, at the hefty rate of 14% above LIBOR, backed by a standby facility of another £1 billion. Almost 40 banks, say the sponsors, have signed letters of intent. This borrowing is dependent on the sponsors raising at least £650m in equity. They aim in fact at £1.05 billion: £50m of their own money; £200m in a placing that was due this month, but may have to wait until the summer holidays are over; finally, next year, an £800m public issue once the legislation is through.

The first test will be this year's placing. The sums, happily, are small: £70m from the City, £70m in France, £20m each in the rest of Europe, Japan and America. The eventual rewards could be large: the brokers to the issue talk of a yield, on the placing price, of 9.6% in 1994 rising to 60% in the year 2003, which would mean large capital gains, even after the 2½-fold rise in prices that they foresee between now and then.

But the estimates of costs are inevitably uncertain, those of profits or dividends wildly uncertain. All will ultimately depend on construction problems, on inflation and interest rates, and, above all, on demand and competition from the car-ferries and airlines.

A bridge would have huge psychological advantages over a ferry; even a drive-through tunnel might have some. But a rail shuttle service, with all the hassle of loading but none of the fun of being at sea, may not. Rail will win, by an hour to



hood in Kent might be disrupted.

Their opposition reinforces doubts about the parliamentary timetable. The Chunnel bill only just recovered in May from an initial error of timing, followed by procedural niceties which might have meant that, as a "hybrid" bill, it would have to be re-introduced in the autumn. Then, however, despite well publicised doubts among certain Tory MPs, it got its second reading in the Commons in early June by a vast majority, 309 votes to 44, with most of the Labour party abstaining. But now its troubles have begun again.

As a hybrid bill, it is before a select committee, and any objector is entitled both to petition the committee and to appear in person. Almost 4,850 petitions have been received. The committee chairman, Mr Alex Fletcher, a former junior Conservative minister, has warned objectors against time-wasting. He hopes that people who want to make similar points will combine to do so. Even if his hopes are fulfilled, the committee still has a huge task ahead.

The bill is already about a month behind its promoters' hopes: they had hoped for second reading by mid-May,



an hour and a half, on speed; but what about price? Bigger and better ferries—plus bigger and better ways for families to spend their cash while aboard—may cut prices by a third. In the event, the tunnel sponsors may find, to their surprise, that their real profits come not from price-sensitive cars and trucks but from businessmen taking the high-speed train rather than flying.

Unfortunately, you can swop rival guesstimates all day—and a guess of dividends due, at earliest, in the mid-1990s is a poor foundation for investing money. The early investors will be venture capitalists indeed. True, there is one prospect of early capital appreciation: the brokers think they can get next year's public offer off the ground at a price 40% higher than this year's placing. Some other people think pigs more likely to grow wings.

Nobody in Whitehall is working overtime to convince the sceptics. Committed the government may be, but the Treasury is not. It has always feared that, in the end, it would be left to pick up the bills; it will not weep if the tunnellers are halted before they (like Concorde) get irreversibly under way.

BRITAIN

and this is what alarms the residents of Stainmore. They fear that landowners between Warcop and Stainmore will eventually sell to the army, and the Eden valley become one big trench.

Boy George

Junk rock

Pop stars and drug-taking are among the favourite subjects of Britain's popular press. Combine the two, and the story is irresistible. That is why large numbers of reporters have spent the past week searching for Mr George O'Dowd, who has delighted (and made) millions as the outrageous and effeminate Boy George, lead singer of Culture Club. The rock star was not at home when the police broke down his door in the early hours of Tuesday, July 8th; he was ensconced in a clinic. But a number of his associates, including one of his brothers and his old (male) friend, Marilyn, were charged with heroin offences after police raids.

Pop stars and dangerous drugs are old acquaintances. Successful musicians move in cosmopolitan circles, where various kinds of illegal drugs are readily



Poor Boy

available. But the saga of Boy George and his friends is a serious blow to those who had hoped that fashion and heroin were moving apart. Although Culture Club is no longer as successful as it was,

Boy George still has a big following. The fact that he had previously spoken out against heroin (and was pictured last month wearing a "heroin-free zone" T-shirt) makes matters worse.

Many of the voluntary agencies that deal with drug abuse have warned against encouraging showbusiness personalities to become involved in the anti-drugs campaign; once one of them falls, the tactic loses credibility. And, in some circles, a 25-year-old who claimed never to have smoked cannabis would be disbelieved anyway. Stars who say they know about drugs but do not recommend them would be more credible.

The government has a long way to go in the propaganda war against heroin. Witness the two government comments to date on Boy George's plight. In the House of Lords, Lady Trumpington has suggested that pop stars should be encouraged to speak out against drugs; did she not know that Boy George had done just that? Still less helpful is the suggestion of the Conservative party chairman Mr Norman Tebbit, than any musician known to be involved in drugs should be banned from the BBC; has nobody told him that a BBC ban does more for a record's reputation than anything else?

Dentists keep the crown

What do you want to do when you grow up? Precocious children faced with this question will cite a new study* by Mr Rob Wilson of Warwick University. This suggests that they should set their sights on becoming a dentist or an economist, but not a teacher.

Crude comparisons of the relative pay of different jobs ignore the differences in the number of years of education and training needed to enter a profession. Mr Wilson looks at the financial rate of return to the individual on education or training as measured by the extra annual income produced by a given profession as a percentage of the costs (including lost income) of acquiring the skills needed to pursue it. This extra income is calculated by comparing the expected lifetime earnings of somebody in each profession with the expected earnings of a non-graduate. The calculation takes account of differences in pensions and taxation, but not fringe benefits or job satisfaction.

The charts show how expected rates of return have moved since the 1950s. Professional education and training appears to be financially less rewarding than it used to be: the annual rate of return for graduates as a whole fell from 17.5% in 1955-56 to 9% in 1979-80. The author suggests two possible explanations.

First, a big increase in the supply of graduates has driven down their relative

earnings: in 1951, only 1.9% of the labour force had a degree; by 1981, that share had risen to 7%. Second, student grants have not kept pace with average earnings and therefore the cost of training in terms of income forgone has risen.

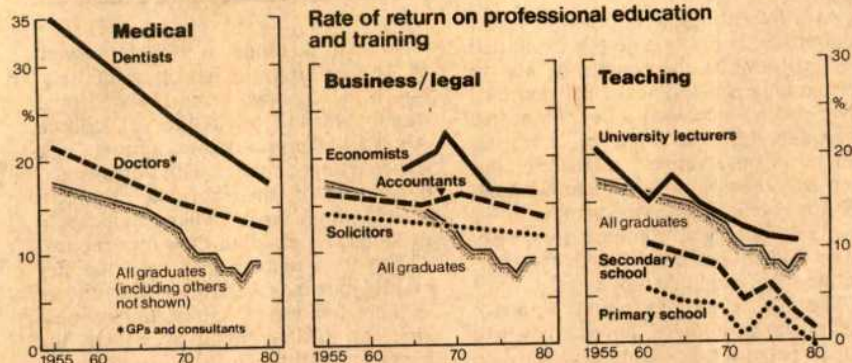
However, rates of return differ widely between occupations. Top of the league in 1980 (as well as in 1955) were dentists, with an expected annual return of 17.5%, followed closely by economists at 16%. Bottom of the league are teachers. The expected return on training to be a secondary school teacher was only 1.5% in 1980 and for primary school teachers it was negative: they could retire richer by not training for their job at all.

Those professions which have deliberately restricted the supply of new en-

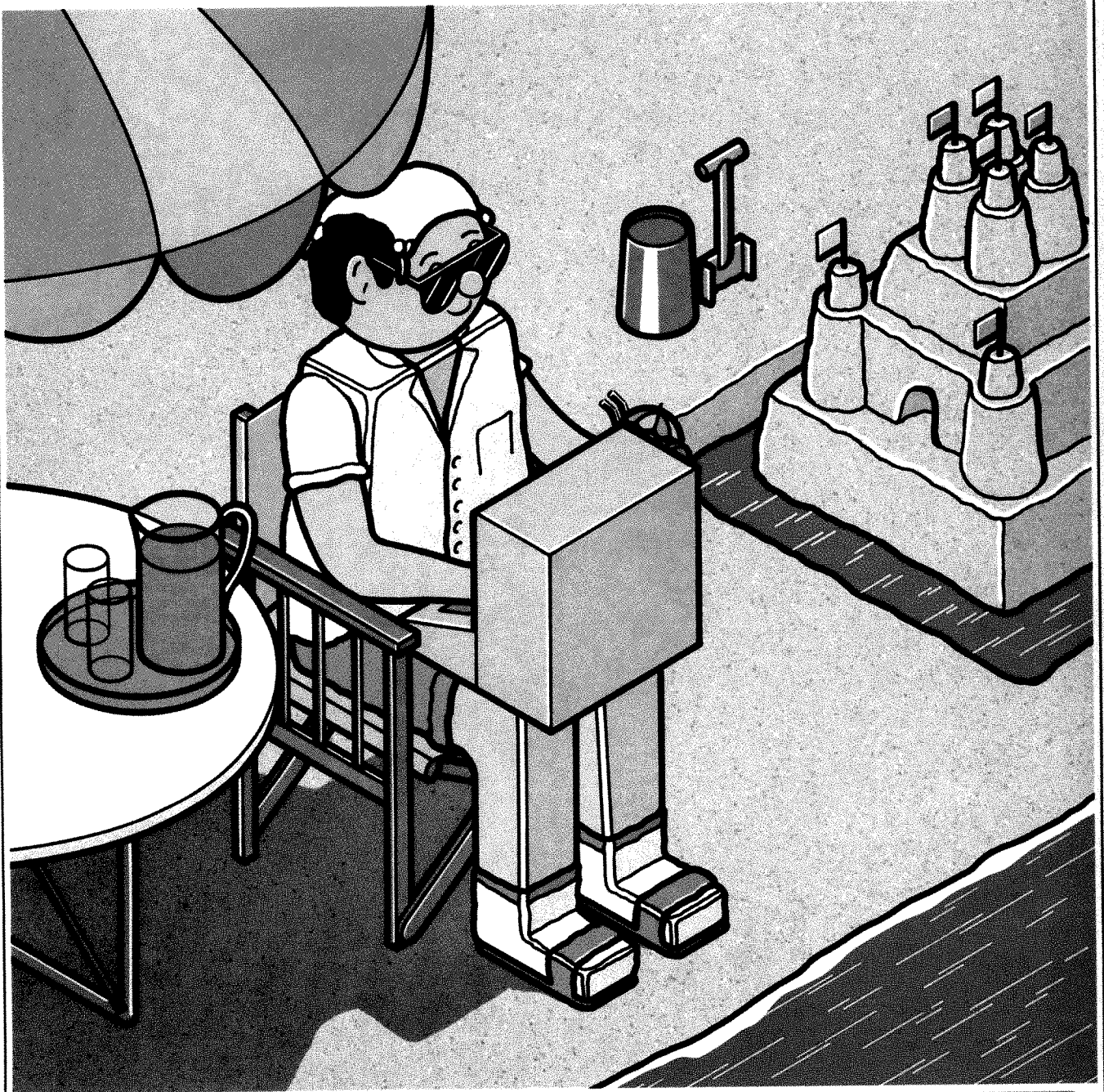
trants have done best—ie, doctors and dentists, lawyers and accountants (see chart). In 1955, lawyers and accountants earned less than the average for all graduates. Now both groups are well above the average: a solicitor's expected return is 11.5%, an accountant's 13.5%.

The economics profession remains as lucrative as ever, not because it restricts entry—on the contrary, the annual output of economics graduates has increased roughly tenfold during the past three decades—but because the growth in the demand for economists has outstripped their supply. As is well known, economists create by their work a demand for more economists to understand or refute it.

*"Changing Pay Relativities for the Highly Qualified", Institute for Employment Research, University of Warwick.



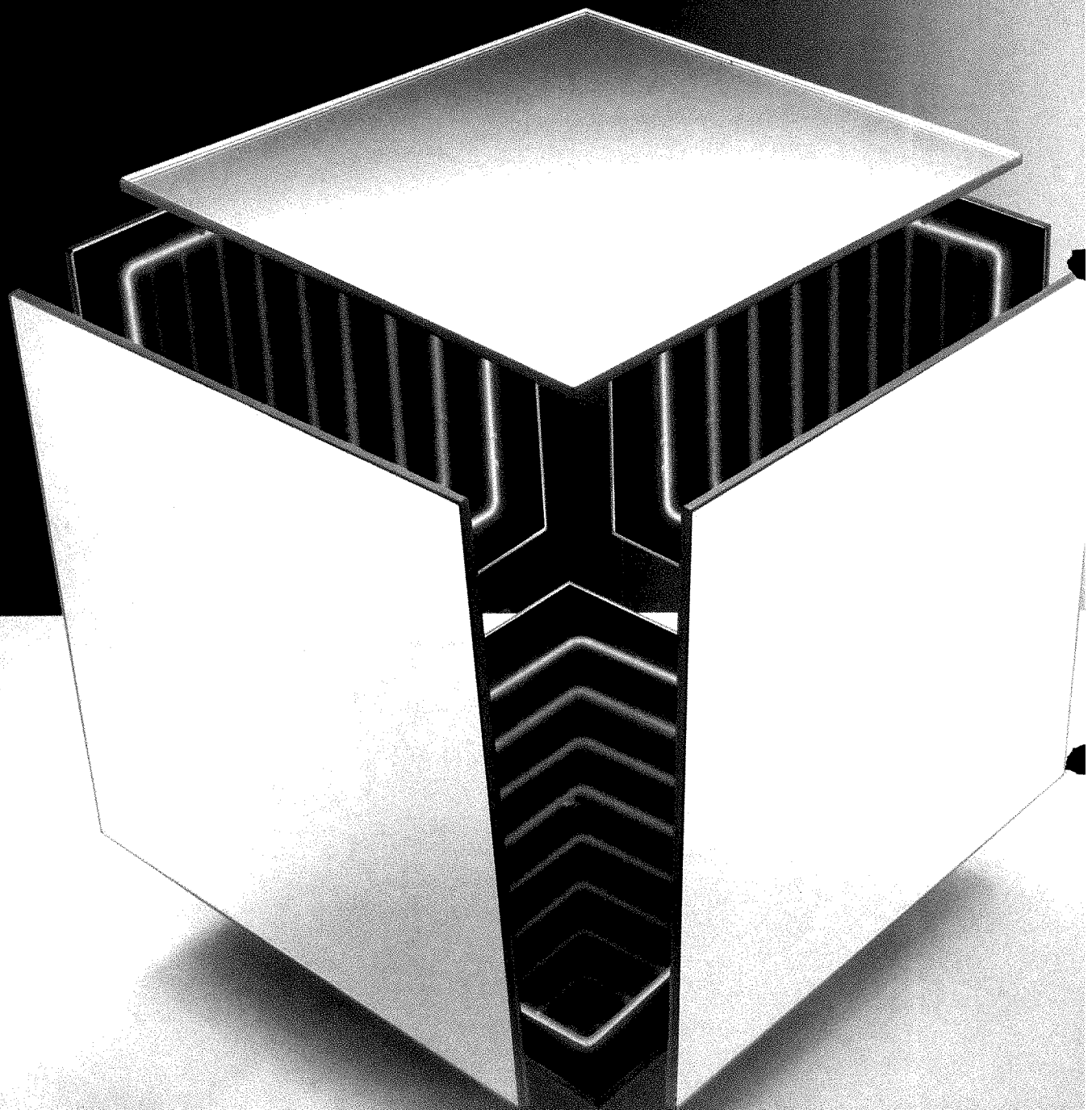
THE OFFICE OF THE FUTURE



A survey of information technology

The
Economist

PHILIPS ADDS NEW DIMENSION



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FRENCH TELECOMS

INFORMATION TECHNOLOGY

Computers are re-writing the rules of business. Companies employ their number-juggling skills to create new products ranging from deep-discount bonds to cut-price air fares. Electronic communication links change the way companies are managed. New management styles and products in turn alter the behaviour of the markets in which companies work. Fortunes are being made by the quickest to master the new rules and by those who sell them the technology to do so. Our electronics correspondent, John Browning, surveys the white-collar revolution

By the end of 1986, an electronic keyboard will sit on over half of America's 60m desks. By 1990, over three-quarters of desktops will have sprouted screens. Dataquest, a market analyst, estimates that in those five years American business will spend \$116 billion on the computers that power those screens and \$127 billion on the software that tells them how to think.

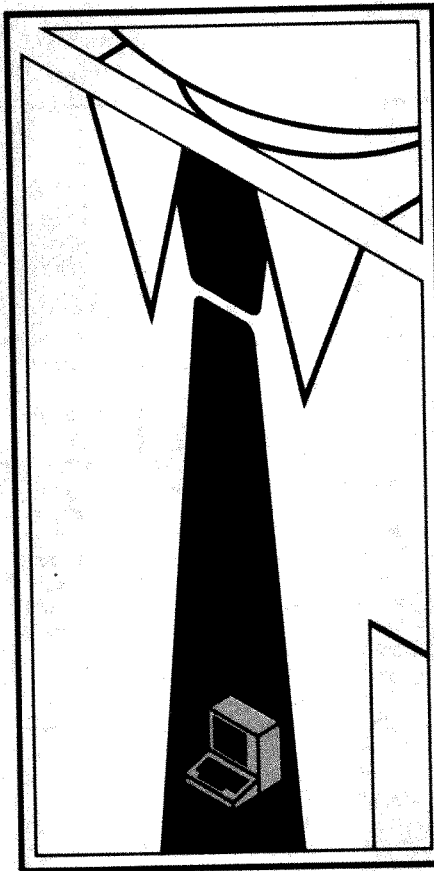
Most of that money will be spent in the name of productivity. Computers can indeed enable one clerk to do the work of 10 or 20. But the real rewards of white-collar automation no longer come from cost-cutting. Today's fortunes are being made from technology's power to redefine a business.

Take two examples. In 1977, Merrill Lynch, a firm of stockbrokers, shifted its focus from productivity to using computers to provide a new service that combined a checking account, a brokerage account and a money-market account. This "asset-management" account brought in \$20 billion in new assets before rivals matched the service in 1982.

In the late 1970s, America's airlines began offering travel agents terminals linked into their computerised reservation systems. The direct links further boosted airline productivity. But the terminals also gave the airlines the power to arrange the presentation of flights on the screens. Agents more often than not chose flights from the provider of their reservation system.

Such innovative uses of automation often defy the logic of productivity to follow instead the "law" discovered by Mr C. Northcote Parkinson in his study of the British civil service: "Work expands so as to fill the time available for its completion." Given the technology to do their work in half the time, office workers are discovering that they have been doing less than half their jobs.

The immediate beneficiaries of the shake-up in the office are customers and



computer-makers. Because automation cuts the time companies need spend on administration, they can devote more energy to providing better products and services. Increasing competition, in turn, creates a self-accelerating demand for technology.

Nearly everybody on Wall Street, for example, now offers an asset-management account—which means that they have all had to install the computers needed to manage such accounts profitably. To distinguish oneself from the automated herd requires yet fancier services or products—which usually require still more electronic support.

This virtuous circle will not continue forever. One limitation is the machines' ability to take on new tasks economically. Although computer hardware is falling in price by about one third each year, the demand for innovative software already outstrips supply. A more fundamental constraint on the progress of technology, however, is human nature.

Because it is service-oriented, the information revolution is more amenable to human whim than the industrial revolution which preceded it. Factory automation offered consumers a choice between paying £1 for a bolt of cloth made by craftsmen weavers and paying half that for a similar bolt from a dark, satanic mill. White-collar automation offers a choice between, say, banking with a human teller and an automated hole-in-the-wall at the same price.

Attempts to force the information revolution on to the consumer are thus usually self-defeating. Many publishers, for example, would dearly love to resell their wares in electronic form, but few want to read their news on a screen—witness the flop of the British viewdata service, Prestel. Attempts to force office automation on white-collar workers lose the very thing they are meant to maximise: the intelligent interest of office workers.

Machines and people

This survey looks at the progress of office automation on two fronts. First, it examines the technology now being thrown at office workers and consumers: computers, software, telecommunications and the knowhow required to build these things into working systems. Second, it looks at the way companies are using that technology to make themselves more competitive.

For newspapers, new technology brings lower production costs. For airlines, it provides a tighter grip on distributors and customers. Financial institutions use the technology to get, and react to, up-to-the-second information on their markets. Manufacturers like Boeing and General Motors are bringing together computers and communications to reorganise the way they make aeroplanes and cars.

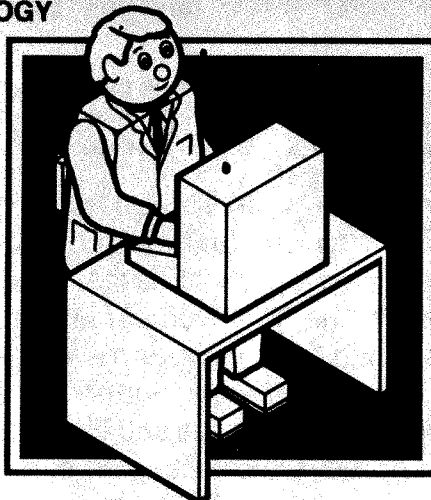
The choices that managers and workers are making about technology today will shape both the way companies work and the way people work within them. There is no technical reason why the deputy editor of *The Economist* should not be able to telecommute from a beach in Bali just as easily as he now does from his

6 SURVEY INFORMATION TECHNOLOGY

home in Wimbledon. But enough of his fellow information workers will have to share his tastes to make the installation of the necessary networks economic.

This generation will have the privilege of automating the world in its own image. Inevitably, different groups are taking different approaches to new technology. Americans embrace the machines most enthusiastically. They adapt themselves easily to the changes that technology brings: both new ways of doing business and new business goals.

The Japanese use relatively few computers in the office. They have had little opportunity to do so. The more than 7,000 characters of their written language defy word-processing. The keyboards with which westerners communicate with their machines are thus not popular. Instead, the most popular information machines in Japan are the facsimile trans-



mitter and optical data storage which, respectively, send and save images of hand-written documents.

Europe is caught uncomfortably between the two camps. On average, its

companies lag behind Americans in employing new technology—although there are spectacular exceptions to the rule. They are also less good at grasping the opportunities the technology presents to rewrite the rules of competition in their favour. Yet culturally and economically they seem unable to develop their own style of using the technology, as the Japanese have done.

Any such generalisations, however, could easily be rewritten overnight. The technology is changing fast. Researchers are close to creating machines which respond to spoken commands and which mimic human reasoning. And the demands people make on the technology are changing as they become familiar with the sorts of services it can pleasantly provide. In the past 30 years, office automation has already gone through three phases. It is starting on a fourth.

Forward march

In the beginning was the mainframe. And the first commercial mainframe was the UNIVAC. The first UNIVAC was delivered to the United States Department of the Census in 1951; but businesses eventually bought 46 of them, at a cost of around \$500,000 each. By 1953, however, the UNIVAC had competition from the IBM 701, which rented for \$15,000 a month, and the era of office automation was underway.

Expensive and vulnerable to bugs (real ones that died in the machinery) the first mainframes required work to be organised to their convenience. And the need to maximise the use of this cranky asset created a style of computing called batch processing. Work was delivered to data-processing staff, whose task was to organise the data into computer-sized "batches". The goal was to have a batch (usually of punch cards) for the computer to work on whenever it was functioning.

The users' convenience came last in batch processing. This did not much matter for regularly scheduled jobs like monthly payrolls or quarterly accounts. But managers who needed, say, a quick update on inventories could wait days for a few seconds of processing time.

The first big step to more accessible computing came in 1963, when Mr Ken Olsen's start-up company, Digital Equipment, launched the PDP-8 minicomputer. The wonderful thing about the PDP-8 was that it cost only \$18,000—which made it cheap enough to wait on people's needs rather than having people cater to the machine.

Minicomputers, together with more powerful mainframe hardware and software, developed a new style of "on-line" computing. Being able to type data directly into the machine enabled banks to

keep account balances on the computer—instead of updating the mainframe from scraps of paper each evening. Word-processing, process-control, computer-aided design, databases which answer queries instantly and a host of other applications all became possible with on-line computing.

For managers, however, the minicomputers posed two new problems: people and information. While mainframes are operated by computer specialists, minicomputer users—like clerks or journalists—require careful training and motivation. Yet data-processing managers often lack people-management skills. Ordinary managers, in turn, have their own problems ensuring that the information on the growing number of minicomputers is accurate and timely.

In 1977, Apple lit a fuse on the problems of managing white-collar automation when it launched the Apple II. The explosion came a year or two after IBM launched its PC in 1981. Instead of tens of minicomputers, companies suddenly had thousands of personal computers. Training the computer illiterate became a major headache. Controlling the computer literate was often worse.

The minicomputer had at least allowed managers to peer over the shoulders of the 20 or so users on each machine. Data could be audited and incompetence corrected. Personal computers offered no such chance. And they created a huge demand for electronic data—from both inside and outside the corporation—among managers who hadn't realised just how boring typing in, say, several years' of sales statistics could be.

The problems of managing office automation are compounded by the fact that data-processing professionals and ordi-

nary managers often find each other totally baffling. The risk is that management of white-collar automation will fall between data-processing types who do not try to understand people or what they do and ordinary managers who feel the same about computers.

The first step towards avoiding this risk is simple human initiative. At the stockbrokers E. F. Hutton, Mr Bernie Weinstein responded to the personal computer explosion by sending his data-processing staff to sales- or teacher-training. At the publishers McGraw Hill, by contrast, managers simply taught themselves enough about the technology to dethrone data processing.

But most firms reckon that the second key to more useful office automation is integrating mainframes, minicomputers and personal computers into office networks. Providing links that allow a personal computer to pull down data from a mainframe, for example, both encourages managers to try new types of analysis with their personal computers and provides a central store for data to ease the problem of keeping information accurate and up to date.

By speeding communications, computer networks promise to boost productivity. Electronic mail, for example, can eliminate the frustration of returning somebody's call only to find that they have stepped out—and vice versa. And, most intriguingly, the networks allow information technologies to be melded into systems that provide competitive advantage greater than the sum of the parts: like cash-management accounts or airline-reservation systems.

Integration, in turn, provides a rallying cry for technology companies. Computers, telecoms equipment and software are all being sold under its name. Given the glut of stand-alone products in most companies, such products are often the market's brightest sparks.

Snapping at the giant's heels

Computer-makers have little to cheer about. The blush is off the personal computer boom. And many managers are puzzled about where their fast-changing businesses will create the huge concentrations of data needed to justify new mainframes. Minicomputers, however, are still selling well—in part because they can provide the framework needed to integrate all the other computers in the business

The computer industry reached a turning point in 1985. Its best customers, American businessmen, spent only 10% more on computers that year than they had in 1984 (and only 4% more excluding personal computers). That came as a shock to an industry accustomed to annual sales increases of well over 15% a year. More worrying is the idea that business sales might never recover their former zip. Dataquest, for one, expects computer sales to American business to grow by an average of only 9% a year up to 1990.

Thanks to stronger demand from outside the United States and from the engineering and technical sector, Dataquest reckons that the growth in total computer sales will rebound to around 20% a year by 1987. But the slump in business demand still hurts. Business bought two-thirds of the \$47 billion worth of computer hardware sold in America in 1985. Some companies dependent on office markets, like Wang and Control Data, have chalked up big losses.

The hardest hit sector has been big mainframes. The value of American mainframe sales fell by 3% in 1985, to about 2,000 machines worth a total of \$6.9 billion. And sales are expected to grow by only 2% or so a year until 1990. That is bad news for IBM, which holds around two-thirds of the global mainframe market.

IBM, says the computer industry's cliché, is not the competition; it's the environment. Companies have developed two ways to prosper in its shadow. In the mainframe market, the Japanese are spearheading the newfangled approach: building "IBM-compatible" machines that will run IBM software faster and cheaper than the firm's own creations. But most of IBM's mainframe competition still comes from the traditionalists of the "BUNCH": Burroughs, Sperry (whose initial comes from its UNIVAC computer), National Cash Register (NCR), Control Data and Honeywell.

These firms simply try to offer a better package of computers, software and service than IBM. It is not an equal battle. IBM, with total sales of \$50 billion, is about five times larger than its next-biggest competitor: the newly merged Burroughs and Sperry. Sperry-Burroughs's combined mainframe market share is still only one-sixth IBM's.

Burroughs hopes Sperry will give it a stick large enough to beat IBM with. In late May 1986 it bought the firm for \$4.8 billion. Burroughs's president, Mr Michael Blumenthal, reckons that the combination of Sperry's strength in airlines and transport will combine with Burroughs's banking and finance skills to create a giant-killer. Many observers, however, think that he is wrong and that the two firms will fritter away their resources trying to square the circle of incompatible product lines.

Honeywell is also trying to enlist an ally to take on IBM. Its choice is NEC, the only big Japanese computer-maker to remain resolutely IBM-incompatible. In the 1960s, NEC sold Honeywell machines in Asia. In 1985, Honeywell signed an agreement to buy and market at least 150 of NEC's ACOS computers by 1990.

Fujitsu, Japan's biggest computer-maker, is meanwhile pursuing a strategy of IBM-compatibility—with some success. And its own market clout is complemented by a growing stake in the third-biggest firm in mainframe markets, America's Amdahl. Founded by the defection from IBM of star computer designer Mr Gene Amdahl, the firm invented the strategy of building machines that run IBM software faster and cheaper than IBM's own. And it has amassed around 7% of the world mainframe market. Since Mr Amdahl's departure from Amdahl, Fujitsu's stake in the firm has climbed to 49.5%.

Despite the efforts of Japanese firms and the BUNCH, IBM's biggest problem in

mainframes is simply the slowdown in the market itself. To keep growing, it must try to reap more revenue and profit from each machine it sells. So IBM is developing more software and services, and trying to charge more for them.

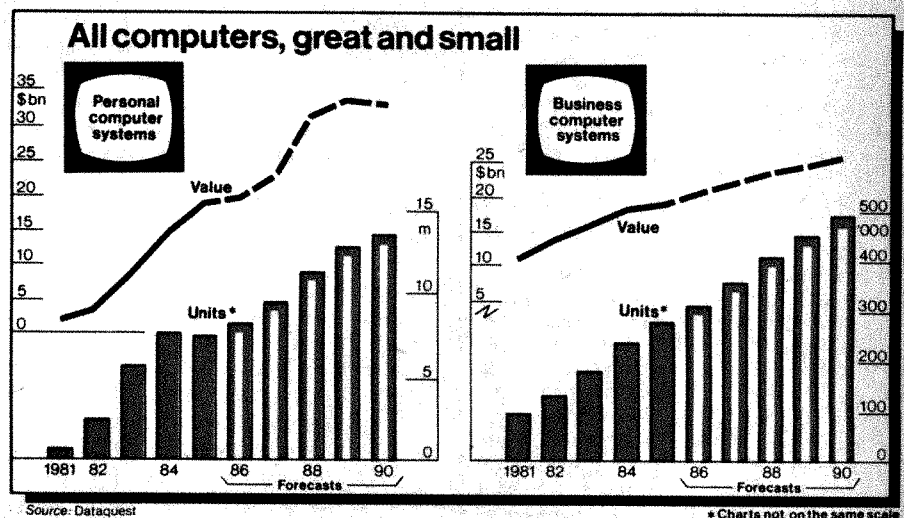
Few of the applications that now run on IBM mainframes were written by IBM. But the firm is completing a huge programme of manufacturing investment aimed in part at freeing more resources for software and services. And it is using its power in mainframe markets more aggressively. The rental on some IBM operating systems—one of the few pieces of software that can be acquired only from IBM—was recently doubled.

The middle ground

IBM might well wish that it had the same straightforward problems in minicomputers as it does in mainframes. In 1985, American businesses spent 12% more on minicomputers than it did in 1984—paying a total of about \$9.5 billion for around 84,000 machines. And Dataquest expects sales to keep on growing healthily until 1990, albeit at a somewhat more modest rate of 8-9% a year.

Although IBM holds around half of the world's minicomputer market, it faces some stiff competition here—not least from itself. IBM offers a range of mutually incompatible minicomputer hardware and software. IBM said in 1984 that it would standardise its minicomputer wares on System 36 computers and the DISOSS "applications architecture". In fact, the firm's tastes are more catholic. What was once viewed as an enviably broad product range has become a marketing handicap.

This plethora of choice is off-putting to some of IBM's customers—particularly the technically unsophisticated. Rival minicomputer makers are eager to turn that discomfort into their own gain. Most successful has been Digital Equipment



(DEC). Its 11% of the world minicomputer market makes it the world's third biggest computer company (after Sperry-Burroughs).

DEC gets nearly all of its sales from one computer, the VAX—which comes in sizes ranging from near-microcomputers costing only \$20,000 to near-mainframes. All

A tangle of codes

One of the most straightforward ways to get computers to work together is to enable them to swap programs and data. But they are snobbish things. Few will have anything to do with software written for other machines. In fact, nearly everything the machines do creates another possible reason why they will not work together.

Incompatibility starts at the computer's microprocessor "brain". Microprocessors take their instructions from strings of 0s and 1s called machine language. The ability to understand this tongue is physically built into the chip. Inevitably, each type of microprocessor has its own dialect, incomprehensible to its fellows.

A second level of incompatibility lies with the "operating system". This is a program which acts as the computer's internal works manager—scheduling the use of things like printers and making sure that the chip does not try to use the same bit of memory for two different jobs. Each operating system imposes on the software a different way of doing things. Software that does not conform either brings the machine to a halt or is ignored.

Frustratingly, even programs that run on a given machine and operating system can fall foul of a third form of incompatibility which causes them to churn out garbage. The problem here lies in the differing ways in which programs store the data on which they work.

Inside the computer all data—be it the day of the week or the number of Volkswagens in Tierra del Fuego—is stored as a coded series of 0s and 1s. One problem here is that different computers use different codes for things like letters of the alphabet. Another is that the machines have no easy way of distinguishing strings of 0s and 1s meant to represent numbers from those representing letters.

Formatting of data is thus crucial. While a person could switch easily from documents which listed name first and then account balance to those which gave the data in opposite order, computers would merrily add up the names if they encountered them where they expected numbers. More perniciously, a machine which expected the number stored in a series of, say, 32 0s or 1s would simply ignore the last half of a number containing 64 0s or 1s—until a real person called up to complain to its owner.

of DEC's machines can run the same software. And DEC has developed communication networks which make it easy to link its machines together with each other and with those from rival vendors—including IBM.

Given the current mania for integrating office-automation systems, DEC's network is a strong selling point. And it complements the hardware with "All-in-1" software. "All-in-1" handles electronic mail and other basic office-automation tasks. Equally important, it can help integrate other applications software just as DEC's network does for the various machines those programs run on.

Thanks in part to such advantages, DEC has prospered while IBM stagnates. Its sales grew by 20% between financial year (July-June) 1984 and 1985, to \$6.7 billion, and its net profits jumped 36%, to \$447m, over the same period. Better may still be to come: DEC's earnings for January-March 1986 were 86% above the same period a year earlier.

But DEC cannot afford to rest on its laurels. Smaller, hungrier rivals like Data General are competing for its markets. Data General's strategy is remarkably similar to DEC's—even down to integrated office-automation software called "CEO". But Data General aims to deliver 20% more computing power per dollar spent than DEC.

Small and lively

Competition in personal-computer markets goes by different rules than those for minis or mainframes. IBM is again to blame. Its PC dominated the business personal-computer market almost as soon as it was launched. The PC's Intel microprocessor and DOS operating system (from Microsoft) quickly became a standard in business (although Apple is still strong in the educational and home markets). With the standard set, competition is focusing on one issue: price.

Although the bloom is off the personal-computer markets, there is still plenty to reward PC-price-cutters. Cost-conscious businessmen signed the cheques for about two-thirds of the \$3 billion worth of personal computers bought in the world in 1985. Although growth in the market is slumping Dataquest expects growth to recover to 20% between 1986 and 1987—creating a world personal-computer market of \$42 billion (\$23 billion of that in the United States).

After IBM, the most successful firm in the business PC market has been Compaq—which went from nothing to over \$500m in revenues within three years. Compaq's competitive secret was simply a faster, cheaper IBM-compatible computer. AT&T has also been doing well recently with an IBM-compatible personal comput-

er licensed from Italy's Olivetti. But now the personal-computer market is attracting the price-cutting champions: the Asians.

The Japanese inexplicably tried to woo customers with snazzy features instead of price. Although Toshiba is making a brave second try at personal-computer markets with a family of IBM-beating laptop computers, many of its countrymen have retired from the field. But the Leading Edge Model D, made by South Korea's Daewoo, is selling like hotcakes in America for about half the price of an equivalent IBM PC. And a variety of other "PC clones" are also selling well.

IBM has so far remained calm in the face of such price-cutting. It has two options for re-joining the fray. Its managers have uncharacteristically hinted that they may wade in with big price cuts of their own. It is also moving up-market into so-called work-group computing—in competition with firms like Apricot, heretofore Britain's most successful computer maker.

The "work group" is a collection of powerful personal computers linked together by a communication network that allows them to swap data. Dataquest reckons that American businessmen will increase their spending on such machines from \$3.4 billion in 1985 to \$5.1 billion in 1990. For western computer-makers, one advantage of such networks is that they sell on service as well as price. And Asian firms find it particularly hard to compete on service.

Apple, meanwhile, is trying a third approach. Its chairman, Mr John Sculley, is basing his sales pitch on the easy-to-use graphics of the Macintosh computer. He believes the machine is perfect for fast-growing niches like desktop publishing and for managers who do not understand computers. Although desktop publishing is growing fast, low-tech managers are withholding judgment on the Mac.

More than any other computer-maker—from mainframes to personal computers—Apple's strategy underlines the growing irony of computer markets. The Mac's selling points are all created by its software: the machine was in fact designed specifically around the programs which make it easy to use.

Other computers take advantage of software somewhat more surreptitiously, but they are still becoming increasingly dependent on it. What other advantage is the IBM-standard than the huge quantities of software available for IBM machines? As the problems computers are called upon to solve become more complex, the software becomes all the more important. While today's computer firms give away word processors to help sell PCs, tomorrow's word processors may come with a computer.

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The hard edge of software

By 1990, businessmen will be spending more on software than on the computers that run it. Yet the software industry is barely 17 years old. Software was mostly given away with computers until IBM "unbundled" it in 1969. With global sales of \$26 billion in 1985, the industry has grown up fast

The software industry is still struggling to define itself. It began as a service business. Programmers tailor-made their wares for individual companies. With the personal computer boom, it became a consumer-goods business. Emphasis shifted from understanding the client and his business to advertising and distribution. The industry's job now is to adapt its service traditions to its new-found mass market.

Personal computers hit software markets like a tidal wave. Between 1980 and 1985, sales of personal computer software doubled every year. Demand for other kinds of software grew by a more sedate 17% a year. From next-to-nothing in 1980, sales of personal-computer software will have grown to \$6 billion of the \$18 billion-worth of computer software which Dataquest estimates will be sold in the United States in 1986.

Software companies grew like Topsy. Ashton-Tate (1985 sales: \$122m) owed its success to DBase II, a program originally written by a Californian engineer to keep track of his football bets. The spreadsheet market leader—Lotus (1985 sales: \$225m)—was conjured up by an ex-transcendental-meditation teacher, Mr Mitch Kapor. A Harvard drop-out, Mr Bill Gates, jumped into the business stratosphere when his firm, Microsoft (1985 sales: \$140m), won the contract to supply the DOS operating system for IBM's PC.

But the days of easy money are now over. Dataquest reckons that growth in demand for personal computer software will slow down to an average of 20% a year between 1985 and 1990—just a head

above the rest of the software industry's 18% average growth rate. The onset of slower growth was the death knell for some once-bright young firms, including VisiCorp, the inventor of VisiCalc, the first spreadsheet. The remaining pioneers are trying to put their companies on stronger foundations.

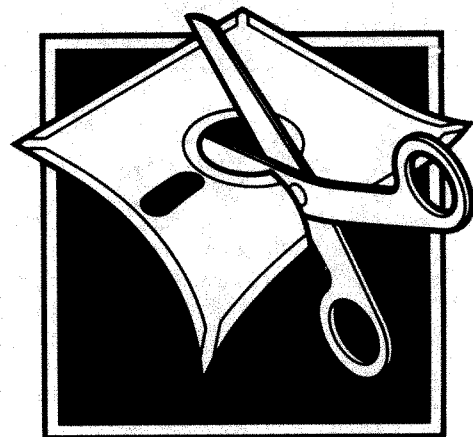
Microsoft, which still gets about half its sales from the DOS operating system, is expanding into applications software like word processing and spreadsheets—and international markets. It is being successful in both. Its "Word" word-processing program and the "Multiplan" and "Excel" spreadsheets are doing well. Nearly two-fifths of Microsoft's sales now come from outside the United States.

Ashton-Tate bought the makers of the "Multimate" word processor as part of its expansion drive. But Lotus has been slower to move beyond spreadsheets. With over half of the spreadsheet market, it dominates its sector more completely than any of its rivals. While it is rumoured to be working on a word processor and other new products, it is profiting from enhancements to its spreadsheets—like a forthcoming program that will allow its "1-2-3" to respond to natural English.

Burning questions

The microcomputer software houses' attempts to put themselves in order are bedevilled by the industry's sheer youth. Managers have no clear trends to guide them on a number of important issues. They include:

● **Price.** The long-expected price war in personal-computer software has yet to

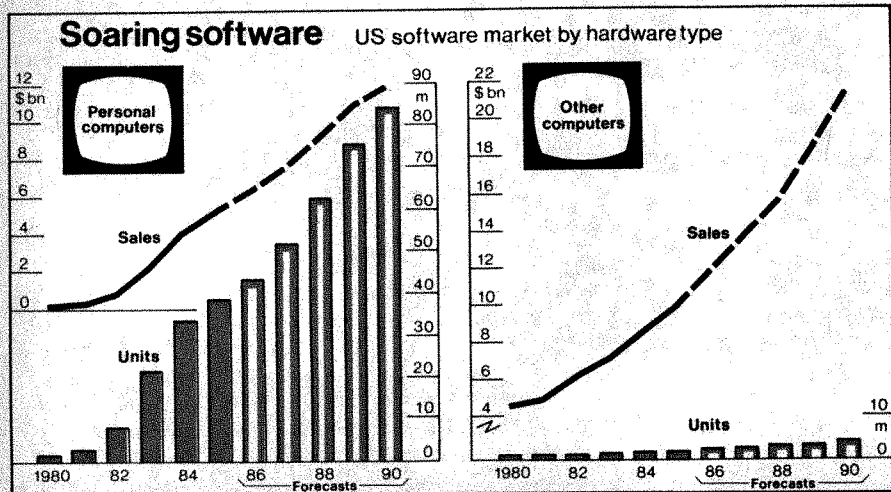


materialise. There is plenty of room for prices to fall. Although many software products retail for over \$100, production costs are typically less than \$10 and development costs are often written off as they are incurred. A Californian firm called Borland International has made a fortune out of cheap products. But few have followed its lead—despite the pressure put on software prices by falling hardware prices.

● **User interface.** How do people want their computers to work? Conventional wisdom in the industry is that people want something like the Apple Macintosh's "graphics-orientated user interface" or GUI (pronounced gooey). This involves pointing to pictures that represent what one wants the computer to do: for example, pointing to a picture of rubbish bin to delete a phrase with the word processor. Although easy to master, such methods are slow to use. Most gooey programs are usually operated via shortcuts. Gooey sceptics wonder why programmers do not simply write manuals comprehensible enough to let people work with the shortcuts from the beginning.

● **Training and support.** Despite the good intentions of software houses, most customers have so far taught themselves how to use their purchases—or employed a consultant to do the teaching. Both the customers and the software houses are only now realising just how expensive that training can be. The customers, obviously, would like someone else to help carry the cost. Which, for software houses, raises another issue:

● **Distribution.** In the United States, microcomputer-software markets have three tiers. Store-front dealers offer advice and support for customers (although they are often just as ignorant as the customer himself). Mail-order firms provide just cut-price software, leaving support to the software houses. And software firms themselves are increasingly selling direct to corporate customers. The software houses are eager to know which tier will dominate the market. (In Europe,



Sorting the data out

Computer software is far more diverse than hardware. Programs are designed for specific tasks, and one of the trickiest jobs for the industry's pioneers was to decide just what capabilities to build into each of their creations. Now, however, the industry divides the programs into several standard categories, including:

● **Word processing.** These programs allow the user to type in text and alter it easily by, for example, moving sentences around. And advanced features are increasingly being added which, for instance, check the spelling of words as they are typed in, or allow the text to be printed out in a variety of different typefaces.

● **Spreadsheets.** Easier to use than to describe, these programs typically work like an automated accountant's ledger. Say the user wants to calculate operating profits for a number of small companies. All he need do is type in revenue and cost of sales. The computer will automatically do the subtraction for as many different companies as he wants. More complicated calculation templates can easily be built up for things like discounted cash flow or asset evaluation.

Personal-computer software sales to US business, 1985

Business & accounting 33.3%

Spreadsheets 14.8%

Word processing 14.0%

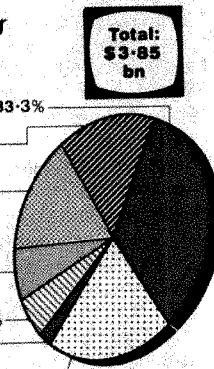
Database 7.3%

Operating systems 7.1%

Communications 2.2%

Other 21.3%

Source: Dataquest



● **Graphics.** These plot series of numbers into bar, pie or line charts. Some spreadsheets—notably market-leader Lotus 1-2-3—have graphics capabilities built in.

● **Databases.** These file away data and recall it automatically. With the proper information in the computer, one can in a fraction of a second sort through hundreds of records to find, for example, all the left-handed baseball players who ever played for the New York Yan-

kees—although most searches retrieve more useful information.

The technology of databases is changing fast. New “relational” databases are more flexible and easy-to-use than their “hierarchical” predecessors. The key to the differences lies in the way they organise the data they store.

Hierarchical databases, unsurprisingly, arrange their data in a hierarchy. Baseball players, for example, might be filed under the name of their team. That works fine so long as every player has a team, and the queries typically look for information team-by-team. But players that leave their teams, even temporarily, drop out of the database altogether.

Relational databases get round this problem by organising their data in tables. Each table stored in the computer contains simply related information. One table, for example, might list players and their teams, another would list players and their positions. To search for players by team and position one simply joins up the two tables. But the separate listing prevents all information about the players falling out of the database if he does not conform to a previously defined category. In the fast-changing world of business, such flexibility is almost as useful as the databases themselves.

this is a less burning question because nobody offers good support, and even mail-order houses get away with prices 25-40% above those of the same product in America.)

The old guard of mainframe software houses are watching the arguments over microcomputer-software service with particular interest. Companies like Cullinet, MSA, ADR and Software AG missed out on the microcomputer boom. But their stock in trade has always been providing service and back-up for their programs. Those programs, after all, are usually rented rather than sold. Should microcomputer software begin to sell on service too, they would have a second chance at the market.

The old guard

Even as they eye microcomputer software, mainframe-software suppliers have to cope with big changes in their own markets. Most mainframe-software companies have as their flagship product a program which acts as a data librarian, a database. But the technology and economics of databases are changing fast.

Flexible, easy-to-use “relational” databases are all the rage. Software AG, among others, owes its success to the shift away from “hierarchical” and “network” database technologies. For others, the shift in technology has brought ill fortune. The great question now is IBM. Although its researchers invented the relational data-

base in the 1970s, it did not come out with a commercial product until 1985. Its DB 2 now lies fifth in the relational database-market league table—well behind leaders Cullinet and Software AG. Can IBM's marketing clout make up for a late start?

But changing database technology is not the only question vexing mainframe-software houses. Few customers can now afford the luxury of writing their own programs to process the information in databases. As a rule of thumb, half of the work done on a program is updating and maintenance. The supply of programmers is already falling short of demand, but each new program they write takes away from the time available to write other programs. Instead, companies want to buy off-the-shelf software that can be adapted to their needs.

Building such software is tricky. One solution adopted by most suppliers of

mainframe software is to provide a “fourth-generation” programming language with the database. Software companies typically claim that fourth generation languages allow programmers to be ten times more productive than conventional languages like COBOL or BASIC. A second solution is to construct “one size fits all” applications software for, say, accounting or inventory control. The snag with both efforts, however, is combining efficiency with flexibility. Programs that run fast are often hard for their users to understand or to modify.

Another promising area—for both mainframe and microcomputer software firms—is communications. Dataquest expects it to outpace the growth in the rest of the software industry. And even plain-Jane applications software can be given a new appeal by improving its abilities to share data among its users.

Marriage lines

Telecommunications is rather like the proverbial horseshoe nail for want of which horses and riders are lost. It does not cost much, and it is most noticed when missing. But most firms are missing it now. So the race is on for a chunk of this fast-growing market—particularly for data communications

Everybody seems to have a bright idea about wiring the office. Computer companies, telephone utilities, telecom-equipment makers and the inevitable leavening of bright young firms are push-

ing a cornucopia of technologies aimed at enabling people to shift data from computer to computer as easily as they now make telephone calls. Nearly all of it works; it is now up to confused executives

to pick the winners.

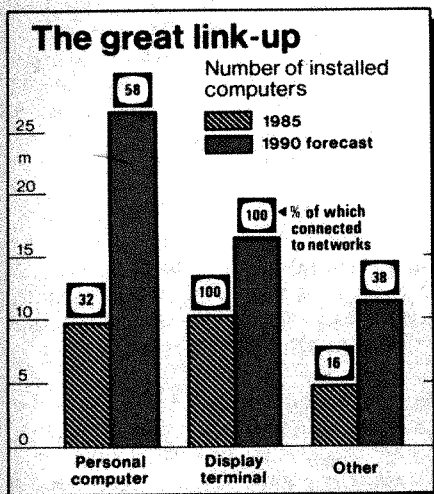
At stake are two markets: one for communications within the office and another for links to the outside world. Dataquest reckons that about half of America's automated desks now have communication links to their neighbours. That portion is expected to grow to two-thirds by 1990. And the market for intra-office data communication equipment in the United States is forecast to be worth a total of around \$19 billion over the next five years—plus \$5 billion more for services and maintenance.

The inter-office communications market is harder to analyse. The shape of competition depends on government regulation of the telecommunications market. Except in Britain—where Mercury is challenging British Telecom—Europeans are connected to state-owned telecommunications monopolies. Antiquated monopolies, backed by fuddy-duddy regulators, hold back demand.

In the United States—where long-distance telecoms is a competitive free-for-all—businesses in 1985 made over half of the \$45-billion worth of long-distance calls placed on public networks. By 1991, the American long-distance market is forecast to grow to \$75 billion. But many firms do not show up in these numbers because they built their own telecoms systems to bypass the public network. Although counting bypassers is like totting up dogs that do not bark in the night, estimates range as high as one-third of Fortune 500 corporations.

Desk to desk

There is no shortage of different ways to communicate within the office. Nearly half of the links from desk to desk are now made simply by running a wire from one machine to the other. But tomorrow's offices will require more sophisticated communications technologies. Leading contenders include:



Source: Dataquest

Traffic control

Computers do not have to run the same programs to work on the same jobs. They can also swap data electronically. While there is no reason why an officeful of computers should not work in harness, it is not as easy as just plugging them into the telephone system. There are many different ways of handling data communications. Typically, none will work with any of the others.

The essential problem in data communications is moving messages from one terminal to another without getting mixed up with all the other data floating around the system. One obvious way to do that is simply to give each terminal its own line to any other it might want to speak to. But that wastes a lot of wire, and most systems have more intelligent approaches to traffic control.

For local networks, there are two broad approaches to communications: hierarchical and peer-to-peer. The hierarchical approach solves the traffic control problem by putting a single machine in charge. All data is routed through a central processor which then forwards messages to their addressee. Because the central processor sees all messages, it knows when the lines are clear and the recipient available.

There are two competing approaches to peer-to-peer communications: polling and contention. Polling—implemented in IBM's token-passing local area network (LAN)—requires each computer on the

network to wait silently until it is asked if it has anything to say. In IBM's case, the asking is done by passing an electronic "token" around the network. If the machine has nothing to say when it receives the token, it simply passes it on; if it wants to talk, it hangs on to the token while it says its piece.

Contention protocols—popularised by Ethernet, which is backed by DEC, Xerox and 3Com—do not prevent collisions between messages; they simply prevent them from jamming the network. Machines on such systems stay silent when they hear another talking. But if two should start talking at once, the collision of data is detected by noticing the garbled message. Then the speakers wait for a (random) number of microseconds before re-sending the message. Because the waits are random, the odds are the collision will not recur.

All three systems have pluses and minuses. Hierarchies are natural if the raison d'être of the network is to allow the machines to share a common resource, like a data library. But both hierarchies and polling techniques are vulnerable to breakdown. Breakdown by only one machine on a token-passing network brings the whole network to a halt by stopping the progress of the token. And such networks are more difficult to modify than contention ones, into which machines can be simply plugged or unplugged.

Local area networks (LANs). LANs now provide about 10% of the desk-to-desk links, according to Dataquest. By 1990 their share should nearly double. Growth in personal computers, which LANs are best suited to link up, will lead the way. Companies are lined up behind two competing LAN technologies to try to capture that growth. IBM is backing "token-passing" networks. DEC, Xerox and a young firm called 3Com are fighting for the rival Ethernet (see the feature above).

Data PBXs. Like conventional office switchboards (PBXs), these machines connect one line to another—except that the callers are computers rather than people. Dataquest estimates that these devices will increase their share of wired desks from 13% today to 16% by 1990—mostly to provide dumb terminals with a choice of computer brains.

Conventional PBXs. Voice switchboards can already carry limited amounts of data. But to handle tomorrow's data-switching needs, they will have to offer more capacity and better quality lines. PBXs are already being beefed-up to do the job. Northern Telecom's new DV1 provides on each line many times the data-carrying capacity of a normal voice link. AT&T and

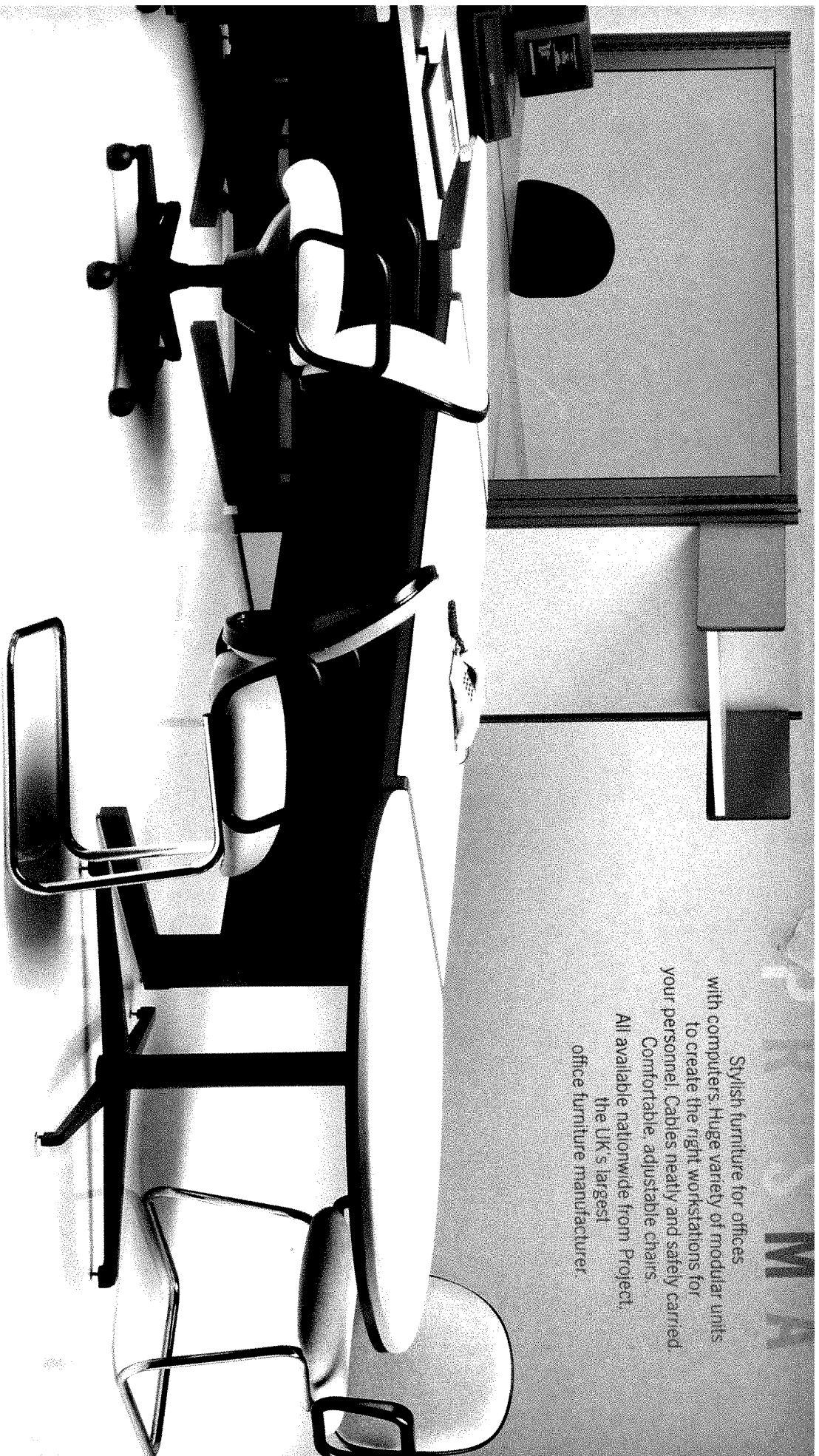
Rolm—recently purchased by IBM to lead its drive into telecoms—are expected to come out with similar switches soon. Dataquest reckons that PBXs will increase their share of wired desks from around 2% in 1986 to just under 10% in 1990.

New horizons

The increasing sophistication of intra-office communications is creating demand for equally sophisticated services between offices. Such demand has already helped bust telecom monopolies in the United States, Britain and Japan. In the rest of Europe, however, regulators are still dithering over how to cope, and their indecision blocks progress. In the United States, businesses often have more telecommunication choices than they themselves can cope with.

The most basic question facing American companies is whether or not to bypass the public network by setting up their own telecoms system. The choice rests on cost and control. High-volume telecoms users reckon they can often cut costs by creating their own networks. They can rent satellite channels for long distance links. For local calls, microwave links capable of transmitting around 30 miles

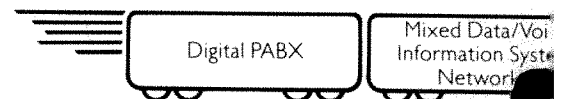
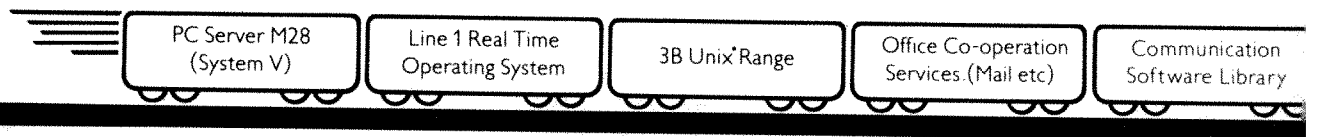
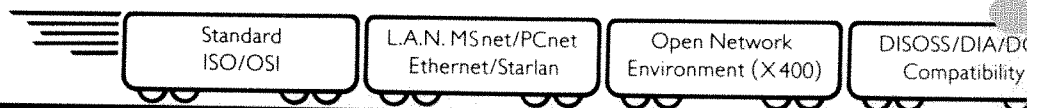
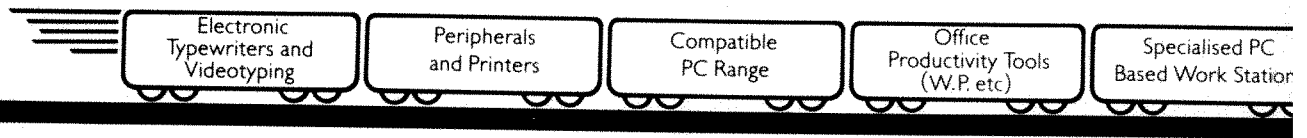
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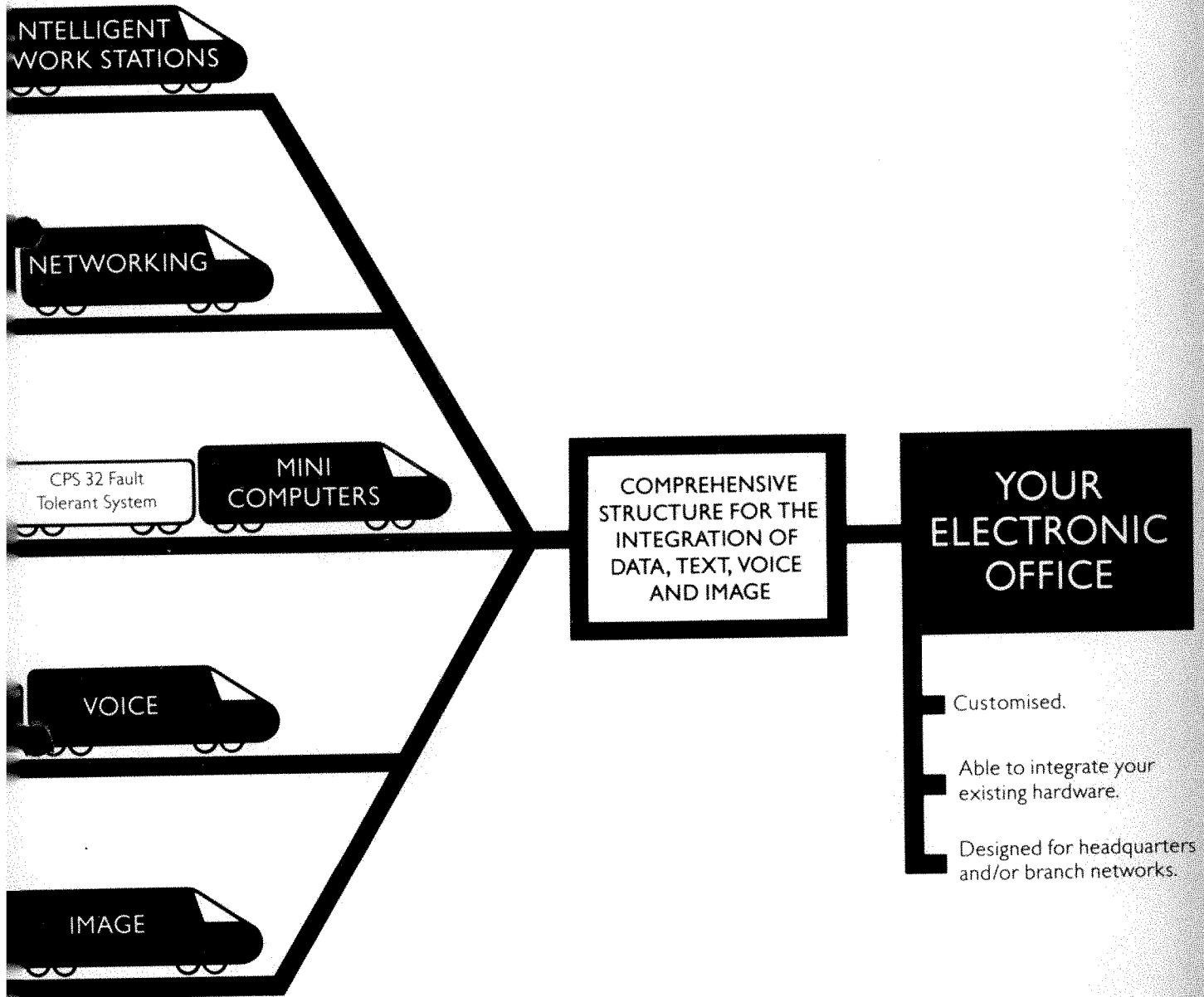
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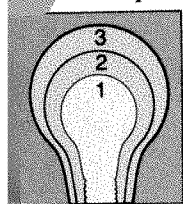
Would you like to know how computers can tell the difference between a pair in a poker game and a pair on a plate?

How they can understand a variety of speakers with a diverse variety of accents—and reply in bear-shaped tones, using normally connected speech?

Then read on to learn more about computers that recognize words, comprehend meaning from context, even synthesize human speech from a mere shadow of itself.

It's All In The Algorithms

Utilizing three levels of speech-processing algorithms, AT&T is giving the computer a more 'robust' understanding—the capacity to comprehend connected speech from different speakers.



Three levels to understanding

Acoustic pattern matching (1) identifies the spoken words.

Grammatical processing (2) figures out how the words are put together.

And semantic processing (3) extracts meaning from the context. With each successive step, the computer moves closer to accurate understanding.

Acoustic pattern matching determines how much latitude the waveform (pronunciation) of a word can have before it becomes unintelligible to the computer.

By isolating the specific characteristics the waveform of a word contains— independent of the accent of a speaker—we increase the probability that it will be correctly matched to a pattern stored in a computer's memory. But, correct recognition of words is only the beginning of computer understanding.

Computer Grammar 101

Grammatical processing further increases the probability of recognizing words. It analyzes them within the constraints imposed by language—the allowable sequences of syllables in a word or words in a sentence.

For a specific vocabulary and situation, it is possible to define every

sequence the computer can recognize. Based on probabilities assigned to each word it recognizes—and where that word falls—the computer determines which of its possible sequences is the most likely. This process gains two advantages: It allows words that might not otherwise be recognized to be correctly accepted; and it speeds up processing time by using sequence position to limit the number of words it looks at for a pattern match.

A Meaningful Relationship

Semantic processing is the point where the computer crosses the line between recognition and understanding—the point where words are given meaning within a specific context. This endows a system with one of its most human qualities: knowing when a request isn't understood, and asking for appropriate clarification.

Talk Isn't Cheap

Making a computer listen intelligently is one thing; making it respond intelligibly, however, is another.

Enabling a computer to talk, reproducing the subtleties of human speech, has required large amounts of memory—a high cost item. Therefore, an 85 percent reduction in the amount of information needed to store and generate high-quality speech can mean significant cost reductions.

That's just what a new AT&T speech synthesis technique, called multi-pulse linear predictive coding (MP-LPC), provides. It reduces the 64 thousand bits per second previously needed to 96 hundred.

Speech signals mimic the human vocal tract—they have redundancies built in. MP-LPC codes speech to remove these redundancies, then tells the computer how to reconstitute the original speech from the mini-version in its memory. This coding eliminates unnecessary bits from being stored and transmitted.

Getting Down To Business

At AT&T, our goal is to make computers listen and understand as fast as people speak—and speak to and understand as many people as possible. Speech-

processing algorithms, developed by AT&T Bell Laboratories, have moved us several steps closer to that ideal.

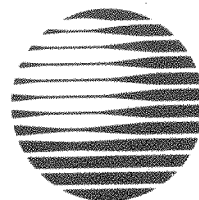
For example, most speech recognition systems make the speaker pause between words. But AT&T, using advanced recognition algorithms, has developed a Stock Quotation System that allows callers to enter and retrieve current market information in natural, normally-connected speech. Users simply speak the number codes for any of over 6,000 stocks, and the service provides current quotes—delivered in computer-generated speech. The system is now in initial service for customers of a major brokerage company.

Numbers are nice, but make for limited conversation. Closer to our goal of a conversational computer is the Flight Information System. It uses the Official Airline Guide as its data base. In its limited environment, this laboratory system converses with the user in natural speech in response to normal flight information queries.

One Of Our First Callings

AT&T has been deeply involved in speech technology since the genesis of the telephone. From the beginning, our goal was to make mechanical communications fast, foolproof and economical.

Today, with the advent of the computer, we're moving toward the ultimate ideal: creating machines that serve our needs and save our energy in the most natural manner—by voice command.



AT&T

The right choice.

SIEMENS

No noise is good noise

If you're sharing your office with a computer printer you'll know just how noisy it can be.

You can either move it, muffle it or unplug it.

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Siemens has over 10 years experience in ink-jet printers and has developed a range of fast, highly reliable, quiet printers that are reasonably priced and economical to run.

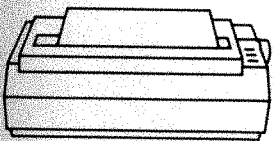
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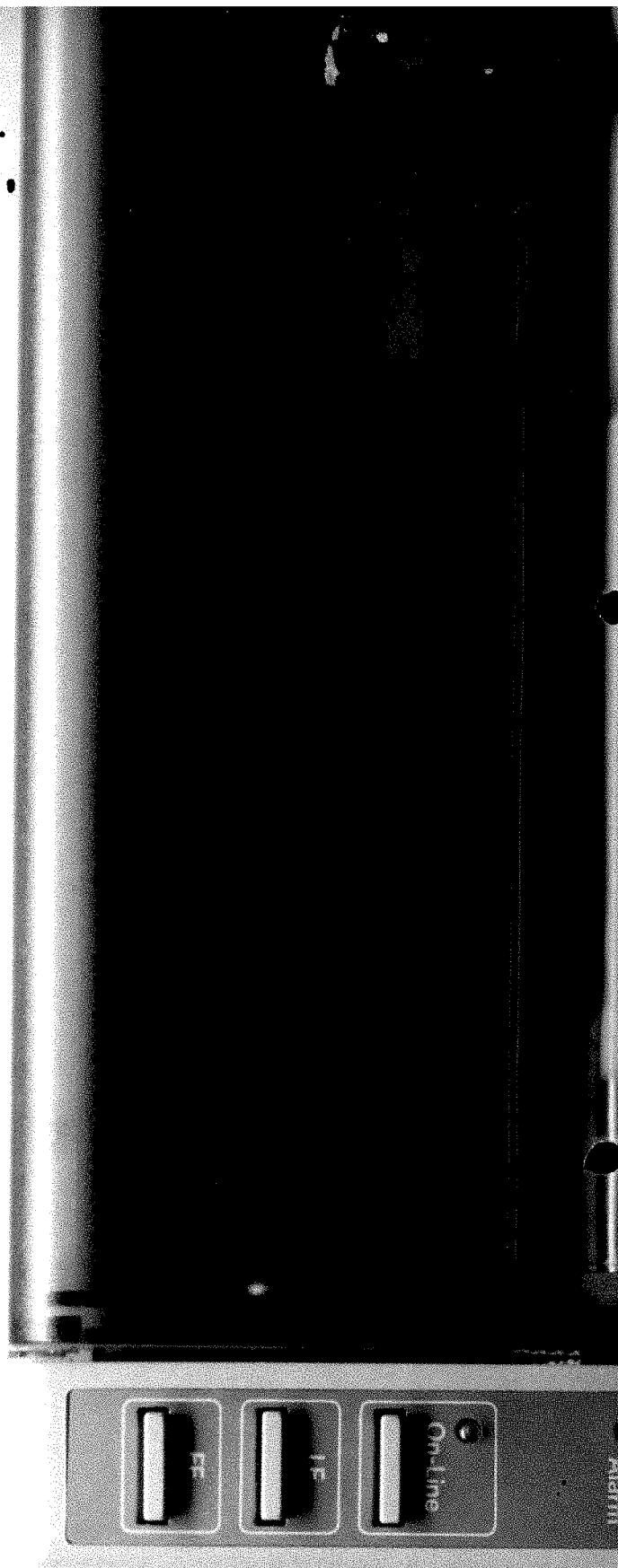
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LE POUVOIR DE DIRE OUI

**THE POWER
TO MAKE IT HAPPEN**

EL PODER DE DECIR SI

**ВОЗМОЖНОСТЬ
СКАЗАТЬ: ДА.**

信頼に応えるあなたのパートナー

IL POTERE DI DIR DI SI

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DIE DYNAMIK SCHAFFT**

القدرة على الموافقة



CREDIT LYONNAIS



OSCAR INTERMARCO

THE BANK WITH THE POWER TO MAKE IT HAPPEN IN SEVENTY COUNTRIES.

Why protocol is needed

Simply hooking computers up is only half the battle in data communications. The machines must also agree on how to address each other. It is easy for a computer to convert the 0s and 1s in its memory into pulses to send down a telephone line. But the receiving machine has to know how fast the pulses are coming and how many pulses make up each "word" of data. That is where protocols come in.

Communications protocols are rules to avoid computer misunderstandings. They apply to a variety of different operations, including:

- **Speed of transmission.** Pulses are decoded into zeros and ones according to how long they last. Both receiver and transmitter must be coding at the same speed if one 1 is not to be confused with two or three.
- **Establishing connections.** The machines must agree on how they are to tell each other that they are on the line and ready to communicate.
- **Framing.** The protocol must specify where the data begins and the administrative chit-chat ends.
- **Error detection.** Static on the line sometimes makes a nonsense of the pulses. A simple way of checking for errors is through a so-called parity bit. The idea is to add an extra pulse to each character which is 0 if there is an even number of 1s sent in the character or 1 if the number is odd. If the parity bit does not agree with the received character, an error has occurred. More sophisticated

error-checking techniques also exist. The key thing is for both machines to know what the other is doing so that error-checking bits are not confused with real data.

● **Error correction.** A computer receiving nonsense often requests the sender to send the data again. The sender, obviously, must recognise that request.

Such protocols are easy to devise, but difficult to enforce. Probably the most widely used protocol today is IBM's Systems Network Architecture (SNA). But rival computer-makers and software houses are gathering behind the so-called Open Systems Interconnection (OSI). Several companies, DEC among them, offer "gateways" to link OSI systems to SNA ones.

Long-distance telecommunicators can often also take advantage of packet-switching to gain both protocol conversion and cost savings. Packet-switching systems gather messages from a variety of computers at a central point, build them into large packets and send the whole thing down a single phone line. At the other end, the packets are broken up and distributed to the individual recipients.

Because the data is reorganised anyway, the protocol between the sender and its centralised collector need not be the same as that between the recipient and its centralised distributor—so long as each of the two pairs understand each other. And sharing the central line between many computers reduces costs.

place. And public networks already reach the small towns where American Airlines is signing up new agents.

To keep more firms in the fold, telecoms utilities are offering cheaper and more flexible services. Ex-monopoly AT&T has seen its share of the American long-distance telecoms market cut to below 80% in two years of price-cutting competition. In November, it offered the so-called "Software Defined Networks"—a service which allows customers to adapt their telecoms service to their own needs by re-programming AT&T's digital switches. After-hours calls to an office in New York can, for example, be automatically re-routed to an office in California, where it is three hours earlier.

For data communications, the choice between public services and do-it-yourself efforts is further complicated by the emergence of value-added networks (VANS). The "value" these services provide lies in the software with which they dress up their data-carrying capacity. Typically, the software ensures security of the data from eavesdroppers or bad connections. It maximises use of the physical lines to provide cheap services and it can translate data from the format understood by the sending machine to that understood by the receiver.

Outside the United States VANS will provide the only form of telecoms competition in some countries. And IBM, for one, is busily signing up partners to help it break into VAN markets worldwide. Japan's de facto telecoms monopoly NTT is already on the list, and joint ventures throughout Europe are rumoured to be in the works. But IBM's enthusiasm belies its experience with VANS in the United States. It handed over its lacklustre Satellite Business Systems group to MCI, purveyor of long-distance telecoms services, in part-payment for up to 30% of that firm. IBM is not the only one to suffer. AT&T closed down its Net 1000 in 1985.

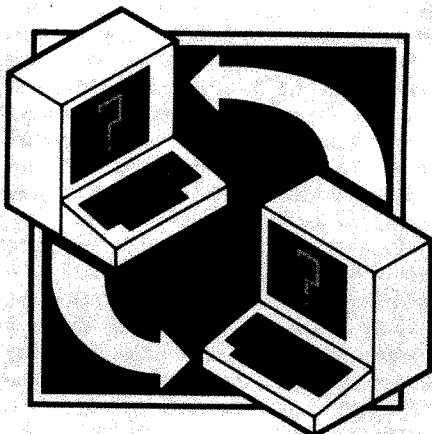
More such flops will follow—and not just for would-be purveyors of VANS. All the arguments over how to link together computers and telephones obscures the fact that most firms have not yet decided what to hook up.

cost \$25,000-30,000; those covering 10 miles cost \$10,000.

Cheap communications is only part of the equation. Businesses also want to be able to rearrange their networks as their communication needs change. And they want to control the quality of service. General Motors (GM) is therefore building the world's largest private network. When completed in 1987, it will contain 600 PBXs and 250,000 telephones. Using

satellites, microwave links and fibre optics, it will eventually link GM's offices and factories with 35,000 dealers and suppliers.

But not all big telecoms customers are following GM's example. American Airlines still uses public networks to link up with the 10,000 travel agents using its computerised reservation system. It reckons buying telecoms services is far cheaper than setting up the organisation to service its own telecoms links—not to mention the costs of buying the equipment needed to make the links in the first



Knocking their heads together

New technologies provide the toughest choices managers will have to face for the rest of this century. The problem is getting people and machines to work efficiently together. There are no easy answers

The purpose of office automation is to make people work more effectively. Although obvious, that is a point all too often forgotten amid the sound and fury of arguments between rival technologies. It is also far more difficult to design

systems that will please people than it is to get machines to work together. The task for management is to overcome personal inertia and fear of the unknown to create efficient systems.

An example of the problems comes

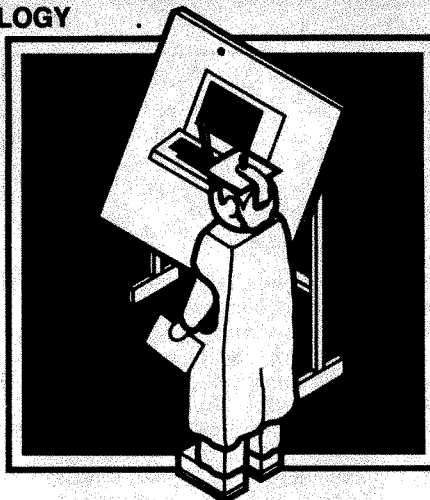
from a (to-be-nameless) British engineering firm. The company worried about the increasing amounts of time and money required to find out which, if any, patents applied to machines it was developing. It developed a high-tech replacement for the existing system—engineers trotting down the hall, plans in sweaty palm, to consult a patent librarian. Each engineer got access to an on-line patent database through a terminal on his desk.

The system was a technical triumph, but it made everyone miserable. The engineers, although they had rather enjoyed complaining about the patent librarian, discovered there was more to the business of searching for patents—particularly Japanese ones—than met the eye. They had enough to do without mastering obscure new skills, and the quality of searches suffered dangerously. The patent librarian—who was a whizz at Japanese patent searches—was bored to the brink of resignation with machine-minding.

In the end, the firm simply cut off the engineers' access to the databases and gave the job of patent searches—plus a terminal—back to the patent librarian. Although an admission that many of the most expensive features built into the on-line system were totally unnecessary, the new arrangements eventually did get patent searches done both quickly and efficiently.

Such stories of misguided automation abound, although companies are naturally more eager to talk about successes than failures. Short of eschewing automation, there is no way to avoid mistakes. The mountains of advice offered by management consultants and other pundits distill down to four broad rules.

- Get employees involved early in the planning of automation. Nobody knows the job better than the people doing it; therefore nobody knows better how it could best be automated. Involving employees early in the planning further boosts morale and their willingness to work with new systems.
- Define clearly the competitive advantages of automation for, first, the employee and, second, the corporation as a whole. One of the major flaws of the patent-search database was that the engineers had no real reason to use it: they were paid and promoted for their engineering skills rather than their patent searches. Examining the corporation's goals for automation helps avoid costly mistakes, and communicating them helps employees see how to use and enhance the system.
- Provide adequate training. Computer literacy is expensive to teach. User training and support are the biggest single cost at many computer installations—well



ahead of program development. And computer literacy is only half the battle. The exemplary engineers would have profited from courses on the theory and practice of patent searching. Stockbrokers or other executives using computers to analyse corporate data often benefit from training in statistics and accounting.

● Be flexible. Everything is changing with automation. Users' capabilities and expectations evolve with experience. The technology is changing faster even than many experts can keep up with. And the competitive advantages offered by automation vary with the progress made in computer use by both rival firms and other bits of one's own firm. Under such conditions, it is impossible to get everything right—or to imagine that the right

solution for today will necessarily be so for tomorrow. So automation has to be cheap and easy to change.

Managers need not face the challenge of automation alone. For better or worse, they can call on armies of consultants eager to provide advice. More radical firms simply rent their computer services. EDS, recently purchased by General Motors, offers computing services for a flat yearly fee.

EDS insists on taking over clients' data processing completely. It then tries to tap two sorts of economies of scale. The first comes through cadres of gung-ho, often ex-military, computer operators, programmers and analysts. The second is through "information-processing centres", which pack huge computing power into a single building. In the United States, EDS is building 14-15 such centres—all running similar software and linked so that they can share the work load. In 1985, EDS's sales totalled \$3.4 billion, more than double 1984's.

No amount of computing efficiency, however, can wring profits from ill-conceived automation. And, as some firms have learned to their cost, even systems beloved by the employees can lose money. The key to real success lies in seeing how technology can enhance one's competitive position. The following four articles show how firms in journalism, finance, marketing and manufacturing have done the job.

Daily Computer

Newspapers and magazines are among the most highly automated firms in the western world (well, outside of Britain anyway). They provide a textbook example of how technology can bring higher quality at lower cost

Newspapers are a perfect target for automation. The technology pays for itself quickly by eliminating typesetters. It shortens the production and distribution cycle to allow more timely, and hence saleable, news. Perhaps best of all for would-be automaters, newspapers know exactly how they want to transmit and manipulate information within their own organisations—which makes it easy to design computer systems to do the job.

In most industrial countries, publishers gradually switched over to the new technology during the 1960s and 1970s as prices fell and expertise improved. In Britain, however, incompetent Fleet Street managers and bellicose unions created a disaster that is still being played out on picket lines in front of Mr Rupert Murdoch's News International plant at Wapping.

Instead of re-typing journalists' stories for typesetting, Mr Murdoch wants to typeset directly from the text that journal-

ists tap into their word-processing systems. That reduces from 6,000 to 2,000 the number of people required to produce the four papers at Wapping—*The Times*, the *Sunday Times*, the *Sun*, and the *News of the World*.

With automation, Mr Murdoch's papers will also get a chance to respond more quickly to fast-breaking stories. (Although it is hard to see how this matters to the *Sun*, in which Miss Samantha Fox's breasts crowd out current events.) Photographs that used to require as much as eight hours to be ready for printing can now be slipped into the paper in as little as 25 minutes.

The rest of Fleet Street is eager to follow Mr Murdoch and Mr Eddie Shah—who was first to announce publication of a national daily newspaper with the new technology. That will leave only one group of unautomated newspapers in the developed world: the Asians.

Japan's newspapers show just how in-



tractable are the problems posed to would-be office automatons by Kanji characters. All stories on the nation's leading daily newspaper, *Asahi Shimbun*, are handwritten. Instead of telex or computer link, stories arrive from remote bureaus by facsimile transmission.

Typesetting at *Asahi Shimbun* is a two-stage process. The first stage sets the 2,000 most commonly used Kanji characters. The result of this setting is then passed with the original, handwritten copy to a second typesetter whose machine inserts any of the 4,000 or so less common Kanji characters into blanks in the text. The second machine's keyboard needs several pages of looseleaf text to show the characters produced by various combinations of keys. Operating it is extremely slow.

Beyond typesetting, however, *Asahi Shimbun* reverts to the Japanese model of automated efficiency. Pages of newsprint are laid out and printed directly from digitised text and pictures. Each box of papers holds a bar code which directs it to a waiting delivery van via conveyors, untouched by human hands. But the Japanese newspapers still miss out on many direct savings from automation—and many of the competitive advantages which their American counterparts are discovering it can create.

New-style newshounds

America's *Wall Street Journal* automated primarily to expand its market rather than to cut costs. As energy prices rose in the 1970s, its managers realised that shipping a stream of electronic data across America's wide-open spaces was much cheaper than toting bundles of newspapers. And the speed of electronic transmission increases the speed with which a firm can deliver perishable news—and hence its saleability.

The *Wall Street Journal* is now produced at 17 regional printing centres spread throughout the United States. News is gathered electronically from around the world, and stories are swapped back and forth with Asian and

European editions. Thanks in part to timelier distribution, the *Wall Street Journal*'s circulation in the United States has increased from 1.4m in 1975 through 1.8m in 1980 to 2m in 1985.

A variety of other publications are also printing regionally: including *USA Today*, which is using the technology to sell a mass-market daily newspaper throughout America and Europe, and *The Economist*, which prints in Singapore and the United States as well as London. But having made the jump to transporting news in electronic form, publishers are now wondering if they can sell it that way too.

Selling news electronically appeals for two reasons. Although it is now more expensive than distributing the news on paper, it could become cheaper given a large enough market. Its immediate appeal, however, lies largely in reselling printed information. With the news already in electronic form, the marginal costs of such sales should be low and the room for profits high. But tapping those opportunities is trickier than publishers first thought.

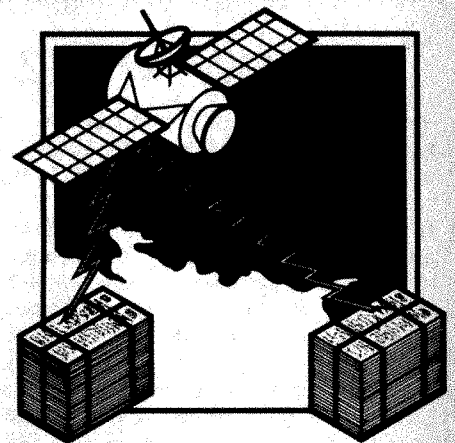
Money talk

Most advanced in the electronic distribution of news today are the world's two biggest financial news services: Reuters and Dow Jones. Their clients demand electronic news because financial markets move too quickly to wait for the stuff to print out. Both Reuters and Dow Jones have discovered that the economics of electronic news is quite different from the printed stuff.

Readers of newspapers want a comprehensive round-up of the day's events. Viewers of electronic news services typically do not want to be bothered by anything that does not immediately affect their job. For the news services this presents the intriguing possibility of selling less and less of their news for more and more money.

Over the past few years the stream of news flowing through the Dow Jones wire service has been split into seven distinct products ranging from general financial news to coverage of trading on spot oil markets. Reuters has a different way of filtering its information. Its most popular service, the "FXFX" page, is an automatically updated listing of the best prices presently offered on commonly traded currencies—and who to call to buy at that price.

Both Reuters, which holds 80% of the financial-news market outside the United States, and Dow Jones, which holds a similar share within it, are looking for further specialisation. But this is not a game most publishers can play—particularly those hoping to re-sell existing news



electronically. Their readers are mostly browsers.

America's computer magazines may be the exception that proves the rule. *Byte* and *Dr Dobbs's Journal* are both experimenting with computer "conferencing" systems. Subscribers can call down to their computers the text of articles—published and unpublished—on topics like data encryption or computer graphics. And they can correspond with the authors and other interested "hackers" via electronic mail.

Initial interest has been high. But publishers worry that many subscribers lose interest quickly. Some of the steadiest users, in fact, seem to be computer companies and software developers. For the computer-makers, the conferences provide a way of providing technical advice to software developers and of monitoring what the developers are up to. The conferences may yet prove to be a new form of technical "hot line" rather than a new form of publishing.

For most publishers, however, on-line databases provide a more convenient way of adapting their product to the demands of the electronic market. The leader here is Mead Data Central, which, for \$21 a time, will search through 175 publications for all occurrences of the word "aardvark"—or whatever else the inquirer might be interested in. Mead's database turnover is now \$155m a year. Britain's Thorn EMI is trying to provide international competition with the World Reporter service.

Publishers get paid royalties each time their articles are accessed from these databases. In theory, this should be easy money: all the database should have to do to file the information is to read the magazines' computer tape. In fact, however, converting data from the magazines' format to that used by Mead Data Central proved complicated enough that for several years McGraw Hill publications were painstakingly re-typed into the database by third-world typists. The era of all-electronic news is still some way off.

The new whizz-kids

Financial institutions got hooked on office automation for two reasons: productivity and quick information. But they are now turning the machines to everything from market analysis to marketing

In 1948 Prudential Insurance in the United States became one of the first companies ever to order a computer—although it later cancelled the deal when the price of the UNIVAC was raised before delivery. The appeal of the machine was productivity. Insurance, banking and stockbroking are full of tedious, repetitive tasks which can be done much more quickly and efficiently by machines than people.

Keeping track of insurance policies used to require banks of clerks. So did totting up daily bank balances and investors' shareholdings. All are now done by banks of machines instead. Once they got control of the records, computers inevitably also began doing more of the work of shifting money from place to place. It just did not make sense to have clerk A tell his machine to tell clerk B to tell his machine to transfer funds when the two machines could be put in direct contact—particularly when delays meant lost interest or profits.

Banks, for example, now shift money between each other via computer links. Although cheap and quick, the process is not always painless. In December, 1985, the Bank of New York lost about \$5m when its computer broke down. Although the machine sold government securities, it could neither deliver them nor collect the money owed to the bank. The bank had to borrow around \$20 billion to pay the sellers. Although the problem was sorted out in 24 hours, it had to pay the interest out of its own pocket.

Stockmarkets are looking at an even more adventurous step into automation: replacing central trading floors with electronic links. Foreign-exchange markets have long listed their prices on electronic screens. But commodity traders say they need the sound and fury of the pits to do their jobs and refuse to shift to electronic trading. Stockmarkets are now somewhere in between.

In 1979, America's National Association of Securities Dealers introduced NASDAQ—an electronic network which allowed market makers to communicate prices to brokers whether they be on Wall Street or in Walla Walla. All dealing, however, was done by telephone. A few years later, NASDAQ took a step further by launching a system which automatically filled small orders—most of them under 1,000 shares—at the best market price. This leaves dealers free to haggle over bigger blocks of stock.

NASDAQ's electronic system has done

much to improve the image of over-the-counter trading, which was once looked upon as a disreputable sideshow to the principal exchanges. Stored prices make it easier for regulators to do their job. Some companies like MCI, Apple Computer and Tandem Computer have decided not to graduate to the New York exchange because they like NASDAQ's high-tech style. But the market does have its critics who say that the prices on the screen are not always the same as those available over the telephone.

The London Stock Exchange is taking a leaf from NASDAQ's book. It plans to switch on a similar price-display system called SEAQ when the exchange is deregulated in October 1986. A year or so later, it expects to unveil a computerised system for executing small orders that will make it cheaper to serve small investors. Eventually, the London Stock Exchange also hopes to eliminate share certificates with automation.

Streamlining the way share transactions are settled is also a key consideration. In the 1960s a back-office backlog all but brought Wall Street to a halt. The Milan Stock Exchange, which has recently seen an explosion in business, is suffering from acute paper indigestion. Several British brokers have refused to trade on the Milan Exchange until the settlement backlog is sorted out.

Bigger and broader

While the arguments continue over automated trading and settlement, computers are more quietly influencing what is traded and when it is done. American financial markets have recently been a hot-bed



of product innovation. Only a fraction of the new creations could be traded profitably without computers.

Mere humans could not cope with things like **stock-index futures**. These contracts, popular among big investment funds, reflect the value of the Standard & Poor's 500 stock index or the Dow Jones index. Or **mortgage-backed securities**, instruments that give an investor a stake in a package of mortgages. Or **cash-management accounts**, where people could not manage the trivia of administering loans, checking accounts and shareholdings profitably. Machines can. The net effects of such innovations are hard to disentangle from those of deregulation and the other changes transforming financial markets. But the computers do seem to have encouraged several trends:

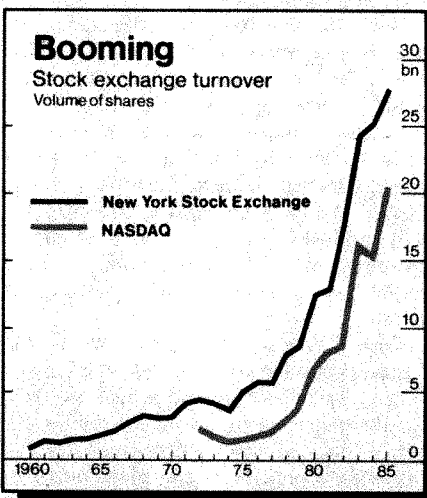
- **Market-broadening.** Through new products, computers have led financial firms into new markets. Mortgage-backed securities, for example, let merchant banks and stockbrokers deal in areas formerly reserved for savings and loan institutions. This inevitably leads to the creation of financial supermarkets as firms add new activities.

- **Higher volumes.** Automated banking systems make it economic for even small firms to manage their cash aggressively. Higher volumes, in turn, allow lower commissions—creating a virtuous circle for consumers.

- **Volatility.** In the short term at least, changing technology should increase the volatility of prices. First, because it encourages quick reactions and, second, because the broadening of the customer base allows mob psychology to affect the course of prices. To keep up with events, the decision-makers are in turn looking increasingly to computers to help them.

Programmed traders

It is a relatively straightforward task to program a machine to watch for arbitrage opportunities between foreign currencies. Many firms are indeed substituting machines for people in such jobs. Coping



Sources: NYSE, NASDAQ

with the arbitrage and hedging opportunities created by, for example, stock-index futures often requires more calculations, more quickly, than humans can keep up with. The traders need to rely on computers to get their jobs done.

Stockbrokers are secretive about the ways in which they are trying to get a trading edge from their computers—although all readily admit they are doing so. And Wall Street is now eagerly recruiting academic theoreticians to try to provide computers with more sophisticated ways of predicting where the profits lie. But even the most computer-struck brokers do not see the machines diminishing the role of human traders.

The mark of a good trader is to be able to predict how fellow traders will respond to a given piece of news. The mark of a good trader in future will be predicting

how traders and their computers will respond to news. No matter how sophisticated the machine, it will need human intuition and direction to help understand news created by humans, and to keep a step ahead of the competition.

Salesmen, too, are recruiting computers as assistants. EF Hutton and Merrill Lynch, America's two biggest retail stockbrokers, are both installing terminals on all of their brokers' desks which will quote share prices, company information and analysts' recommendations.

The purpose is twofold. First, they hope to increase sales by offering a better service. Equally important, they hope to retain the loyalty of high-flying brokers by helping them to make more sales and, hence, earn more commission. But the financial firms are far from alone in recruiting computers as salesmen.

American Airlines quickly followed suit with its SABRE system and TWA unveiled the PARS reservation service. Within a few years, nearly all the airlines were offering computerised reservation services to their agents.

Today, a decade later, over 90% of America's 27,000 or so travel agents subscribe to a computerised reservation service. Those travel agents provide about two-thirds of the airlines' business within the United States and about four-fifths of international flights.

To get travel agents to use their system, the airlines had to show that their video screen would be more useful than others. For most travel agents, "more useful" translated into "more listings"—so the systems offered rivals' flights too. Many airlines added hotel and car-rental reservation services, and linked those services into "back office" computers to automate the agent's billing and accounts.

Subsidising travel agents' office automation was not cheap. But marketing studies showed that even a full-listing computerised reservation service could be a powerful sales weapon. Around two-thirds of full-fare reservations came from the first screenful of listings that popped up on an agents' terminal. Obviously, owning the system that provided the data helped get flights on to that screen.

American Airlines—whose ticketing symbol is AA—used to sing the praises of alphabetical flight listings. Other airlines found different ways to bias their systems. Despite the mounting costs of meeting the travel agents' escalating demands for computer service, nobody could afford not to offer computerised reservations. Once agents were hooked on computer reservations, to ask them to go back to telephoning for seats was to commit competitive suicide.

Many airlines breathed a sigh of relief when government regulators banned most of the tricks airlines used to steer travel agents to their flights. For would-be newcomers, the difficulties of getting listed on a reservation service provided a formidable barrier to market entry. For airlines less successful at competing on computer skills than on their ability to move passengers, the systems were an alarming drain on resources.

Over the long term, the regulators probably need not have bothered. Competitive pressure would have gradually eliminated most of the bias anyway—just as it forced the airlines to broaden the range of their listings. But, in the meantime, the airlines with the biggest computers and most skilled data-processing staff would have been temporary kings of the castle.

The end of built-in bias forced airlines to think again about computerised reser-

Another foot in the door

Computers are joining the sales force. The machines are selling everything from shares to pesticides and holidays. But the computers' pitch relies as much on the productivity-boosting services they provide as their ability to show off the virtues of the product

British farmers who want to know the weather, crop prices or the best pesticide with which to treat their bug-bitten crops can now tap their queries into videotext terminals provided by chemical-giant and pesticide-maker ICI. American Hospital Supply is providing nurses with inventory-control computers. And two American air-conditioner makers, Trane and Carrier, provide engineers with computers that—you guessed it—calculate a building's air-conditioning needs.

The machines have two sales-boosting roles. Like a fast-talking salesman, they help the company get a foot—or a terminal—in the customer's door. And, like a good marketing man, they help direct human salesmen to the prospects most likely to buy their products.

Selling through computers involves the most visible use of technology. By putting terminals on customers' desks, companies can get a firmer grip on their customers and/or their distributors. By making it easier for a customer to buy one's product, they help sell more of it. The expense of creating computer-sales networks and training customers to use them creates a barrier to would-be market rivals. Although powerful in the short term, such advantages fade quickly.

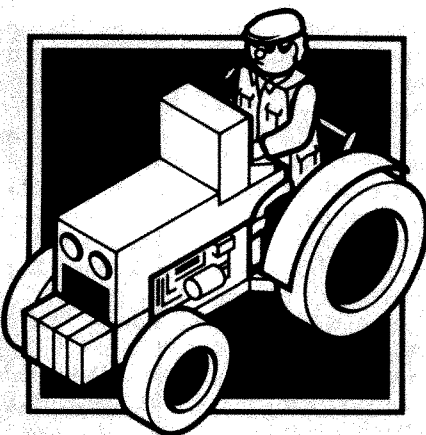
Over the long haul, computers best pay their way as marketing men. While most firms can survive without computer salesmen, automated marketeers often prove indispensable. The machines are excellent at sorting through mountains of data to find niches of opportunity. As comput-

ers speed companies' response to markets, the pace of change in the markets outspeeds mere people.

In practice, the roles of salesmen and marketeer are often muddled. A "marketing" computer, for instance, can be much more efficient if the data it is to work on is captured by "sales" terminals on customers' desks. The experiences of the pioneers of computer-aided sales, the airlines, shows just how nimble companies must be to make machines keep paying their way.

High-flyers

Airlines began developing computerised reservation services to boost their own productivity in the early 1950s. In 1976, with deregulation just over the horizon, United Airlines offered to hook travel agents directly into its APOLLO system.





vations. What was the point of spending lots of money on computerised reservation systems which could no longer shove customers directly on to your aeroplanes?

The first answer that struck most airlines was that—although worth less as salesmen—computers had quietly become invaluable marketers. As competition increased between airlines in the wake of deregulation, cut-price fares, frequent-flier incentives and other marketing gimmicks proliferated. Computers are crucial both to administer such marketing strategies, and to monitor their effectiveness.

Frequent-flier programmes could not be administered economically without computers. Nor could fares be adjusted on a daily basis, as most airlines now do. And airlines would find it difficult, if not impossible, to get adequate profit margins out of today's lower fares without computers. One of airline computers' most important jobs is "yield management": that is, juggling available seats and fares for each flight so that cut-price travellers do not crowd-out full-fare ones and full-fare seats do not go empty for want of a cut-price passenger.

For some airlines, like United and British Airways, marketing advantage—and the sales advantage remaining to those who have their name on the agent's terminal—justify running their systems more or less as they have always done. Pan Am, on the other hand, scrapped its system altogether. It reckons it is cheaper and more efficient to rent computer services from American Airlines. American Airlines, in turn, is trying to turn its computer-services operation into a profit centre in its own right.

Going solo

American Airlines's task now is to create a virtuous circle. The more things it can put on to its system for people to reserve, the more people will want to hook their terminals into the SABRE service—and pay around \$1 for each booking they make there. The more people on the

system, the more types of reservations and services it will be economic to offer.

So the 11,000 travel agents subscribing to SABRE are being offered access to 18 different reservation systems, including Club Méditerranée and Avis rental cars. And American Airlines is now talking to the British and West German railways and ferry services to try to expand its listings services worldwide.

Mr Max Hopper, the computer hot-shot recruited by American Airlines to mastermind SABRE's expansion, claims the number of travel agents subscribing to the system is growing by 1,000 a year, despite a 25% turnover. But the biggest tranche of new subscribers will come from efforts to reach out to businesses and individuals directly.

American Airlines is working with minicomputer makers DEC and Data General, among others, to build links to SABRE into their office-automation systems. Through such links, a secretary could tap her boss's reservations directly into SABRE. The travel agents, in turn, are kept more or less happy by giving them a monopoly of ticket-writing. With 5,500 offices using Data General's CEO office-automation package, plus 4,000 or so more for DEC's All-in-1, that is a lot of potential business for American Airlines.

Fellow travellers

Other firms' experience with computers in the sales force parallels that of the airlines. Banks are finding that the best way to hook customers on their correspondent banking networks is to allow them to use the networks to reach other banks. Retailers are similarly discovering that the machines provide valuable marketing information as they keep track of

inventories.

Italy's Benetton, for example, has linked its hundreds of knitwear shops around the world into a computer network which collects sales from each outlet daily. Inventories can thus be kept to a minimum, which provides substantial savings. And trends in the volatile fashion industry can be identified as soon as they materialise.

Japanese soap and shampoo maker Kao is also reaping big savings from computerising its marketing. Kao sells over 500 different products through a network of 300,000 small retailers. Supplying those retailers requires 1,200 trucks a day shuttling back and forth from about 120 warehouses. Kao has organised its computer system to boost efficiency on three fronts: distribution, stocks and sales.

Warehouses are linked via a data network to central computers which keep track of stocks, sales and orders. The machines schedule trucks and vans to maximise loads both coming and going. Sales trends are analysed to help predict demand and further sales information is fed in daily from the electronic check-outs of big-city supermarkets. Inventories have been cut by over one third to just under one month's supply.

Now Kao is expanding the system to provide sales and inventory information on each of its retailers. Salesmen can tap into that data before they make their regular calls so they can know what to promote and what subjects to avoid. And Kao's managers are already thinking up new ways to milk marketing information out of their computers. They spend ¥56 billion (\$250m) a year on information, so they want to make the most out of it.

Common cause

Manufacturers are tying together sales automation with the robots and intelligent machine tools they are putting on the shop floor. The result, they hope, will be companies that are cheaper to run and quicker to react to market changes than today's giants

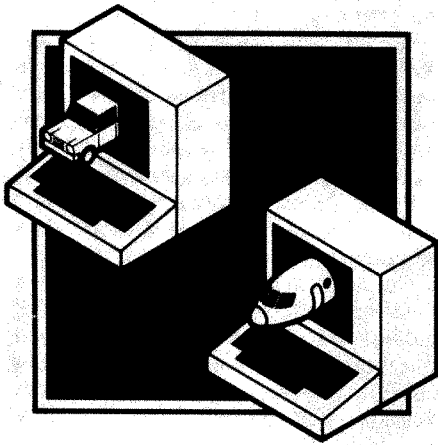
Boeing and General Motors are approaching automation from opposite ends of the manufacturing spectrum. Boeing makes a few score of civilian aeroplanes a year, and sells them to even fewer customers. General Motors, by contrast, churns out thousands of cars for the mass market. Economies of scale give GM by far the easier time of automation, but the two firms' first steps towards automation have a surprising amount in common.

Top of both GM and Boeing's list of computer priorities is standards. They want their machines to be able to work together. Each is now campaigning to establish in the market a set of technical

standards that will define communication protocols based on OSI—and to enforce compatibility with those standards.

Boeing's standards, called TOP, cover the white-collar world of the office; GM's MAP covers the shop floor. MAP seems well on the way to establishing itself as the world's shop-floor automation protocol. TOP, although enthusiastically received, faces tougher competition from the de facto standards established by among others, IBM.

Standards are crucial to the integrated automated systems which both companies hope will manage their affairs by the end of this century. To see why, and what sor



of things manufacturers are up to, trace how a GM car might well be bought and delivered in the 1990s.

If a customer walking into a GM showroom does not see exactly the car he wants, he will be able to call up from a computer a high-quality video image of his dream car. The same computer will also allow him to test the cost of various options (for example, electric windows and leather upholstery).

Should the customer like what he sees either on the showroom floor or on the screen, the salesman can then arrange a deal through the computer. Through GM's financing arm, General Motors Acceptance Corporation, the computer can do a credit check on the customer. Without a computer, this can take two or three days; the computer could cut the time to around half an hour. And it will, if the customer wishes, automatically arrange for his or her bank account to be electronically debited each month to pay GM.

While the computer is checking on credit, it can also be tracking down the delivery time on the customer's car. About half of GM's customers want cars that their dealers do not have in stock. The machine checks if another nearby dealer has such a car; if one is in factory inventory; and how long it will take the factory to make one specially. It then sends a message to the dealer's or the factory's computer to order the car.

If the order has had to go all the way back to the factory, the factory computer then has to schedule delivery of the parts needed to make the car. It does so by talking to suppliers' computers. The design specifications for those parts, in turn, may have been sent from GM's design database directly into the customer's computer-aided design centre.

The same computer system also handles any service the customer might need after delivery of his car. It handles parts orders and inventories just as it does whole cars. And, by plugging a car into a computerised test-bed, the local engineer could call on GM's central computers and

engineers to help him diagnose any tricky problems.

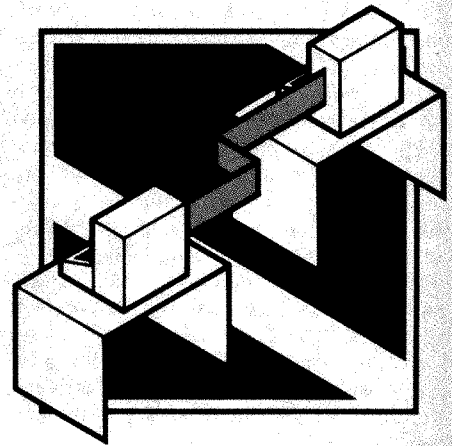
Such a wholly integrated system is some way off, even for GM. The firm's main task now is simply integrating its computer centres. Each GM division operated its own computer centres. These have to be melded in with five inherited from EDS—the firm GM first hired, then bought, to build its new computer systems. When the job is complete in 1988, GM expects savings of 10%, or \$175m, on computer-operating costs alone.

GM is experimenting with new ways of using its computers even as it works on the backbone of its system. An experimental programme for Buick dealers linked them into a videotext system with information about the costs of cars with various options, and their availability. Sales at the linked dealers rose by about one quarter.

Would-be buyers of Boeing 747s, however, are not so easily impressed. They already use banks of computers to help design the aeroplane to their specification. For Boeing, much of the potential saving of automation lies in the management of manufacturing. It already uses computers that can help create engineering drawings of a part and then translate those drawings into instructions for machine tools. Further savings come from linking manufacturing and design together with management systems.

To achieve such linkages economically, however, Boeing must first rethink the way it organises its manufacturing. The company's engineers are now trying to divide the quarter of a million or so parts which go into each aeroplane into "families", which can be produced on similar machinery with similar techniques. Organising automated production around such families gives Boeing a chance to tap economies of scale.

Grasping that chance, however, is far more complicated than managing a car



production line. So Boeing is working hard on artificial intelligence techniques that will enable its computers to get a handle on aeroplane manufacture. Specifically, its priorities are:

- **Expert systems.** The software enables the computers to diagnose, say, mechanical problems by reasoning from rules taught to them by a human expert.

- **Machine learning.** Such techniques allow the machines to adjust to the idiosyncracies of each aeroplane.

- **Planning.** Being able to organise work towards stated goals is obviously crucial for organising the massive tasks of aeroplane construction and maintenance. It is also difficult to teach computers to do. No complete solution to the problem of how to automate planning yet exists.

To integrate such complex automated technologies into the firm, Boeing gives selected employees from all parts of the company the opportunity to work with the artificial-intelligence researchers for a year at a time. The researchers learn about the real world of making aeroplanes, and the employees learn about computers and artificial intelligence. The programme is massively over-subscribed. Boeing's employees, at least, cannot wait for tomorrow's world to arrive.

Beyond logic

Old-fashioned human virtues are still the key to success in automation

Automation is deceptive. Computers can speed failure as seemingly effortlessly as they do success. And, if nothing else, failing with high technology is a lot more expensive than doing it with old-style human power. The mistake underlying many automated disasters, however, is becoming so entranced with what machines can do that one forgets what people want.

Two cautionary tales show some of the limitations of automation. The first comes from the American magazine publisher, Time-Life. Time-Life wanted to

cash in on the cable television boom of the late 1970s with a magazine that would give daily listings of shows on about 200 of America's biggest cable networks. Technology made it possible (barely) to edit and distribute a weekly magazine with hundreds of editions. But, amid all the excitement, Time-Life forgot to ask who would want to read it. By the time it found out the answer—practically nobody—*TV-Cable Week* had cost nearly \$50m, the most expensive flop in Time-Life's history.

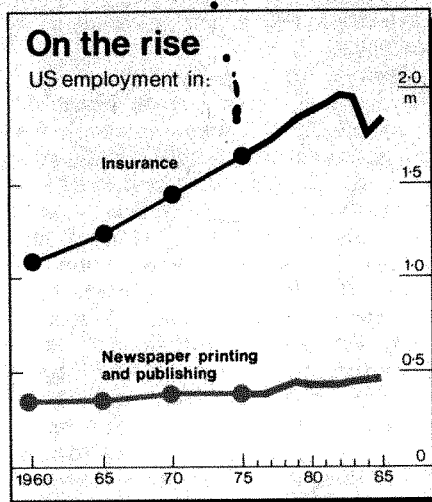
Chess master Mr David Levi provides a

different example of the limitations of automation. He has had a long-standing bet of \$10,000 that no computer will beat him at chess. While it seems likely that Mr Levi, or a successor, will some day lose, his style of play against the machines is instructive. Computers, he has shown, can be thrown off their game by unpredictable play (well, at least by unpredictable play of Mr Levi's standard).

Complete predictability is both a computer's greatest strength and its greatest weakness. One does not, after all, want excitement and variety in the addition of one's bank balance. But equally nobody should expect adding machines to invigorate a lacklustre business.

Where automation has proved most successful is where it is used to meet human needs: be they better cash management or faster airline-seat reservations or more timely news. The machines can neither create those needs nor identify them. What they can do is to provide leverage for people who can.

Vigorous expansion by automated industries is creating more and higher-paid jobs than are lost when clerks' routine



Source: US Department of Labour; ACLI

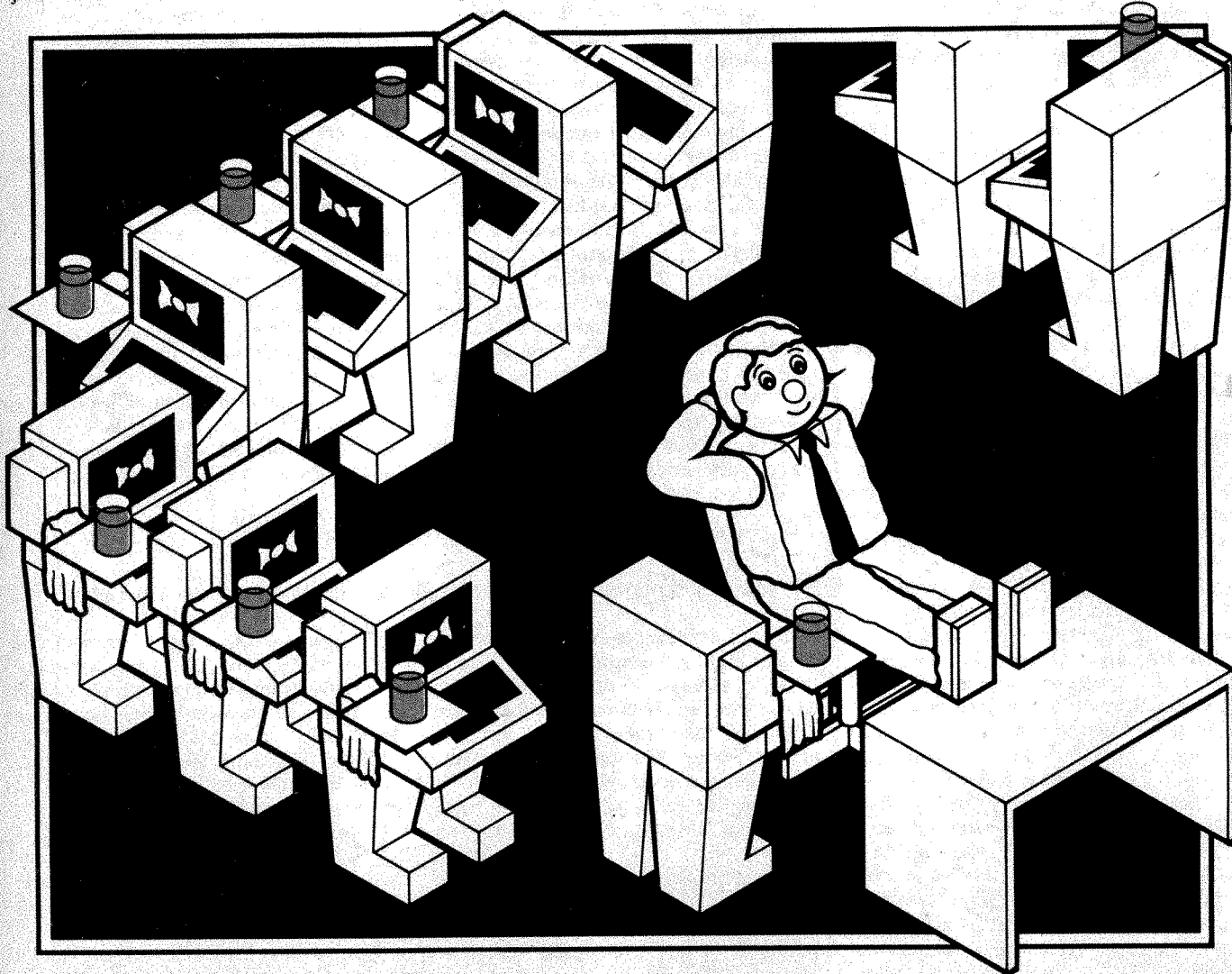
jobs are turned over to computers. Two of the most highly automated industries in America—insurance and newspapers and publishing—have shown steady rises in employment since the 1960s (see chart). Short-sighted European unions all too often forget such long-term increases in employment in the fight to protect the

jobs of today's clerks.

For the workers in automated industries, the technology is in fact helping to create more people-oriented firms. With routine work increasingly done by computers, competitive edge increasingly comes from human flair and insight. Keeping creative managers happy and loyal is becoming more important than keeping troops of clerks marching in step.

The real challenge of automation is mastering the complexity of the world it creates. Trading stock-index futures is a more abstruse pastime than picking hot stocks. Managing an airline in today's world of quick-changing fares and promotions is a far cry from the old days when one could make a living just flying passengers from point A to point B.

Mastering such complexity requires increasingly large doses of education to be mixed with the instincts and skills needed for business success. Education will be the next century's most important service industry, its costs covered by the power given to trained minds by the machines they use and create. Without such investments in people, machines will be wasted.



You have a rather large pile of papers on your desk. It's a major presentation—handwritten notes, bar graphs, charts and typed pages. It must be organised, typeset with graphics including colour charts, duplicated (about 100 copies would do nicely), bound between gold-blocked covers and returned to your desk in 12 hours. Added to that, you need 50 bound copies delivered in New York simultaneously. All that remains is finding someone who can do the impossible—deliver the job.

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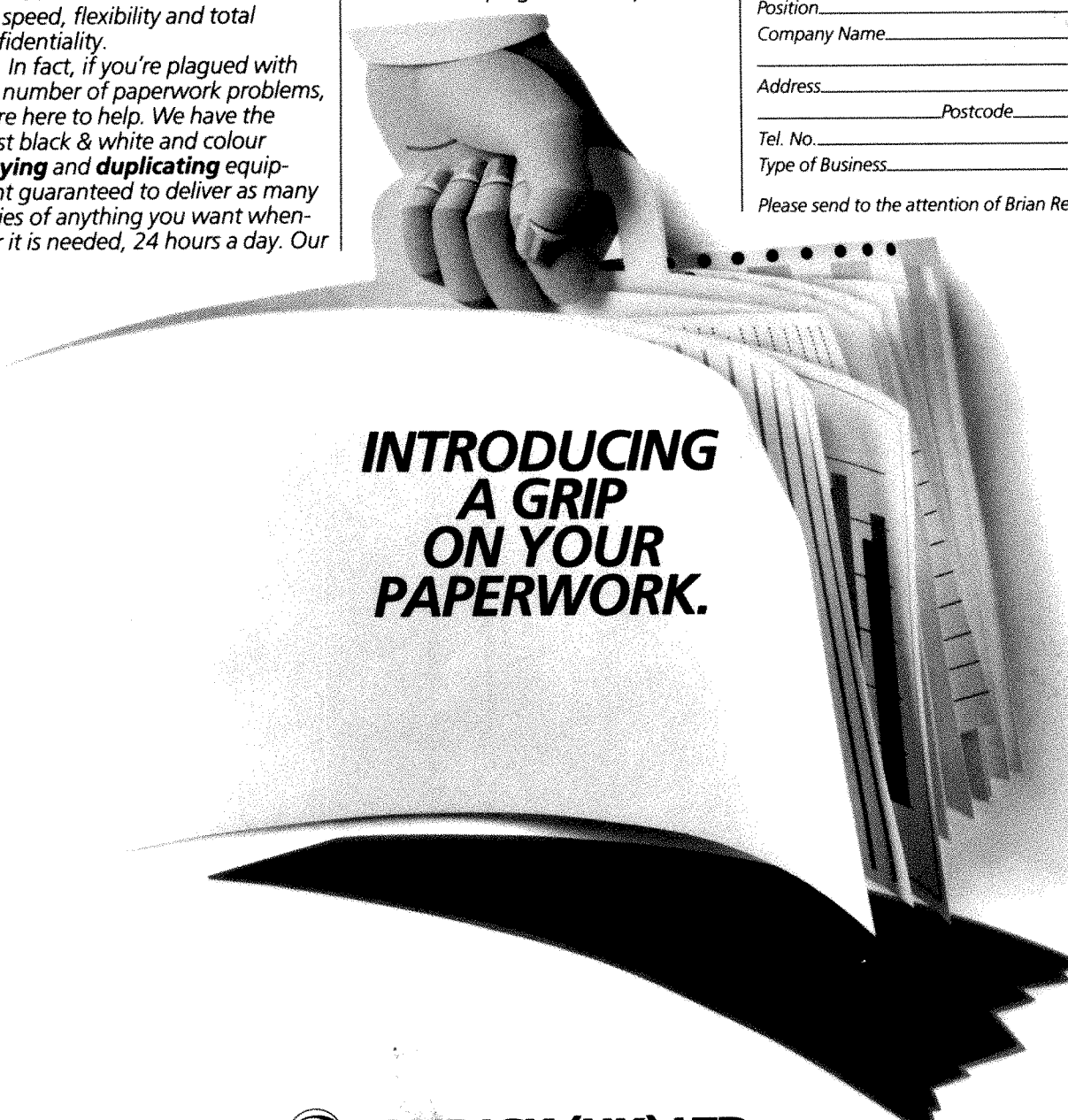
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Why an ambitious young woman from Georgia went to Hawaii to change her mind.

(And why Fujitsu, the computer and communications giant, helped her do it.)

Melody George is an ambitious young business graduate from Atlanta, Georgia who is in Hawaii at a special school — a school that's teaching her how to change her mind.

Her mind is a Western mind, and she has to change it, because if she doesn't, she'll never be able to do what she wants to do.

Communicate with the East

What she wants to do is communicate with the East; she wants to do business there. That's why she went to JAIDS.

JAIDS is the Japan-America Institute of Management Science. Located in Hawaii, it is a private, non-profit institute that teaches Western management trainees how to think and function in the Eastern way, and Eastern trainees how to think and function in the way of the West.

And after teaching them, JAIDS sends them to corporations in the cultures they have studied to do management internships.

Brainchild of Fujitsu

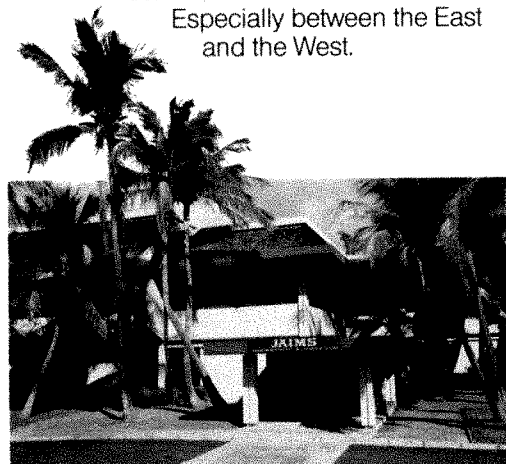
JAIDS is the brainchild of Fujitsu; we conceived and created the school fourteen years ago.

And we sponsor it, and keep it going. Why do we do it? And who are we?

We are the number one computer maker in Japan. We are also a world leader in telecommunications technology.

We are a multinational company with operations in more than 100 countries, and a strong commitment to helping establish better communications in the world.

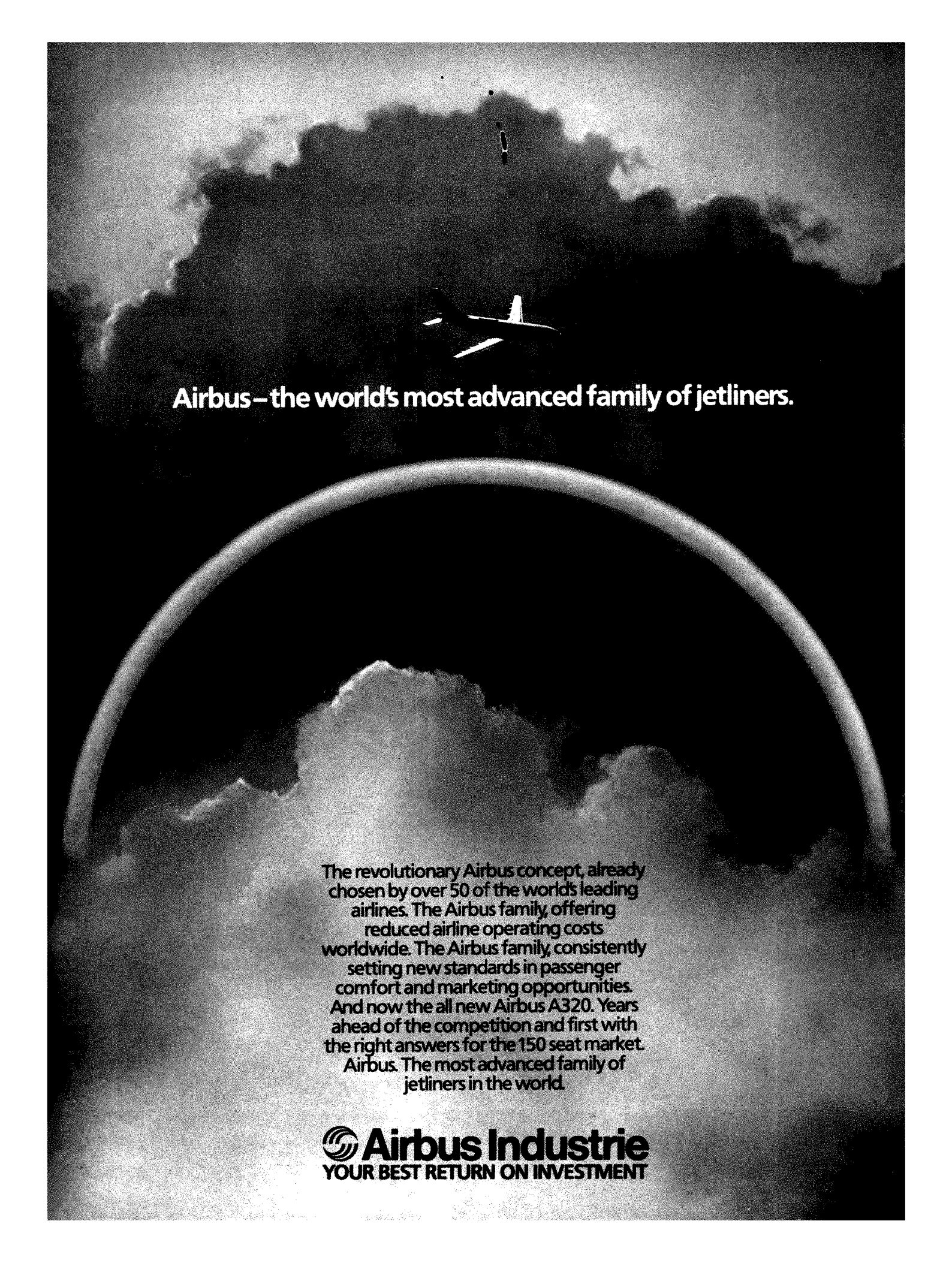
Especially between the East and the West.



The Hawaii campus of the Japan-America Institute of Management Science, which was founded by Fujitsu. Enrollment is open to all nationalities; scholarships are available. For information contact: JAIDS, 6660 Hawaii Kai Drive, Honolulu, HI 96825, U.S.A. (808) 395-2314.

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BUSINESS THIS WEEK

Not a Wall Street crash, but New York and London saw the biggest ever one-day falls in **share prices**—in terms of points. Gold responded by jumping \$5 to \$350 an ounce.

America's Supreme Court said part of the budget-cutting **Gramm-Rudman** law was unconstitutional. Congress must now reaffirm the \$11.7 billion cuts made in March.

Banco Itau became the first Brazilian bank to raise money (\$50m) in international capital markets since debt worries peaked in 1982.

New Zealand agreed to return to French custody two French agents who blew up the Greenpeace ship, *Rainbow Warrior*. France agreed not to block **New Zealand exports** of butter and lamb to the EEC.

Russia's deputy foreign trade minister said Russian companies may soon be allowed to make **joint ventures** with western companies.

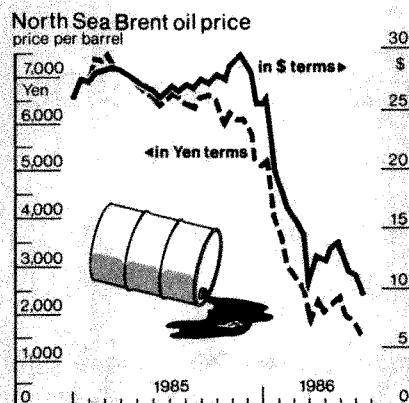
The EEC Commission gave ten **European airlines** two months to end their price-rigging practices on European routes.

New York's **insider trading** scandal resurfaced as main offender Dennis Levine pointed a finger at a Goldman Sachs vice-president David Brown,

who promptly resigned.

The European Court of Human Rights rejected British-shareholder claims that the Labour government had paid too little compensation for **nationalising** shipbuilding and aerospace companies in 1977.

Scientific American spurned a cluster of suitors, preferring instead an offer of \$52.6m from West German publishing firm Verlagsgruppe Georg von Holtzbrinck.



Oil plunged below \$10 a barrel. America considered buying 250m barrels on the cheap to bring the strategic petroleum reserve up to its 750m capacity.

After electoral victory, Japan's prime minister, **Yasuhiro Nakasone**, asked for new proposals to stimulate economic growth, using both private sector and government funds.

Egyptian Refaat el-Sayed said mistreatment by Sweden's business establishment was forcing him to sell his 78% stake in antibiotics firm **Fermenta** to Italy's Montedison.

The **Financial Times** is to go high-tech. It will build a new printing plant in East London and begin direct-inputting journalists' stories by 1988.

The **World Bank's** Development Report slammed Europe's and America's attempts to protect farmers from world markets, and said third world agriculture is a mess.

A Zimbabwe minister was rude about America's South Africa policy, so America shelved \$9m of **aid agreements** with Zimbabwe.

Lloyd's battle for **Standard Chartered** was complicated by the intervention of Tan Sri Khoo Teck Puat, from Malaysia, who bought 5.03% of Standard.

Economic and financial indicators are on pages 97-98.

Corporate scorecard

Company	Period	Net profit \$m*	% change on comp period**	Sales \$m*	% change on comp period**	Comment
Associated Newspapers	H Mar 31	28†	+17	370	+26	The British publisher will value improved returns when it pays up on anticipated redundancy costs and new technology.
British Steel	Y Mar 31	52	‡	5,200	nil	Steel came good at last, and with no government subsidies. The company recorded a real profit for the first time in ten years.
Casio Computer	Y Mar 31	32	-22	1,180	+11	Japan's largest maker of calculators sold more word processors and pocket televisions, but was hit by the rising yen.
CBS	H Jun 30	124	+43	2,420	+6	America's entertainment and broadcasting group sold a television station and raised profits. Records gave better returns, but publishing turned in losses.
Granada Group	H Apr 12	56†	+40	600	+5	The British television, bingo and service-stations group benefited from increased spending by television advertisers.
Great Atlantic & Pacific Tea	Q Jun 14	29	+7	2,100	+8	The American grocery store A&P did not improve much on profits after a \$345 remodelling and expansion scheme begun last year.
Heron International	Y Mar 31	56†	+24	1,500	+26	Mr Gerald Ronson's property, commerce and financial services firm did best in America.
NEC	Y Mar 31	123	-59	10,560	+3	The Japanese electronics group, hit by depressed demand, managed a small rise in sales at the cost of a sharp fall in profit.

Y = Year ended. H = Half-year ended. Q = Quarter ended. *Converted at average exchange rates. **Based on local currency figures. † = Pre-tax profit. ‡ = Loss in previous period.

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WORLD BUSINESS

America and Japan stack the chips against their customers

NEW YORK AND TOKYO

One way or another, the trade skirmishes between Japan and America over microchips are ending. By the end of this month, America's Commerce Department must impose, or drop, the anti-dumping duties it has assessed on Japanese semiconductors. Japanese and American negotiators are now preparing for a meeting in Washington that will attempt to replace duties with a negotiated settlement.

Pressure is building on the Japanese to agree to a deal. The strong yen is thwarting the efforts of Japanese chip makers to turn their growing share of the American chip market into growing profits. Anti-dumping duties would make their life still more difficult.

At the same time, South Korean chip makers—backed by government subsidies—are gearing up to increase their share of the American market at the expense of Japanese and local producers. The Japanese are determined at least to retain their share of the American market. With its elections out of the way, the Japanese government is less worried about the political embarrassment a chip deal might cause. Talks will resume on July 14th in Washington, with the Americans anxious to conclude a deal no later than July 26th.

The two main prongs of the agreement under discussion will be a near doubling of American chip makers' share of the Japanese market (from 10.4% to 20% by

value) over the next five years; and a system for monitoring Japanese semiconductor prices globally by Japan's Ministry of International Trade and Industry (MITI). But many issues remain to be resolved before such a deal can be struck.

Japanese chip makers fear that MITI may succumb to the temptation to make them sacrificial lambs on the altar of Japanese car and steel exporters. They also see a risk that their detailed reports on their costs to MITI might lead to a leak of proprietary information to American semiconductor manufacturers—especially on how Japanese microchip makers manage to get high yields from their integrated production lines.

At the negotiating table, however, the arguments look likely to centre on:

- How to evaluate the true cost of any particular microchip. Japanese semiconductor suppliers are divisions of bigger electrical groups. Allocating overheads and transfer pricing will be thorny issues. Glumly, the Japanese expect the Americans to insist that chip prices be calculated as if the products were being manufactured in the United States—ie, more expensively and without the chance of any hidden cross-subsidies.

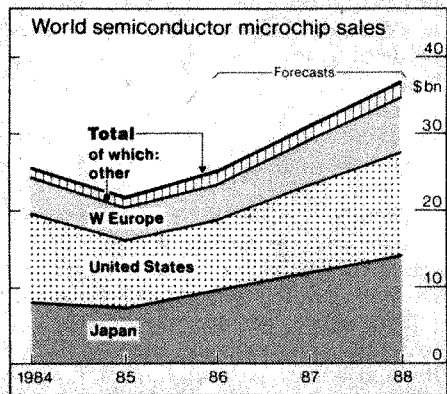
- Whether to include production or assembly in third countries in the agreement. The Americans clearly intend to block Japanese chip exports to the United States via Japanese assembly plants in South-East Asia.

- How to "guarantee" American producers the increased share of the Japanese market that MITI has agreed to give them. This could mean letting the Americans grab more of the market for fancy and highly profitable microprocessors. An alternative the Japanese are looking at is to plug cheap American chips into Japanese equipment which is to be exported back to the United States.

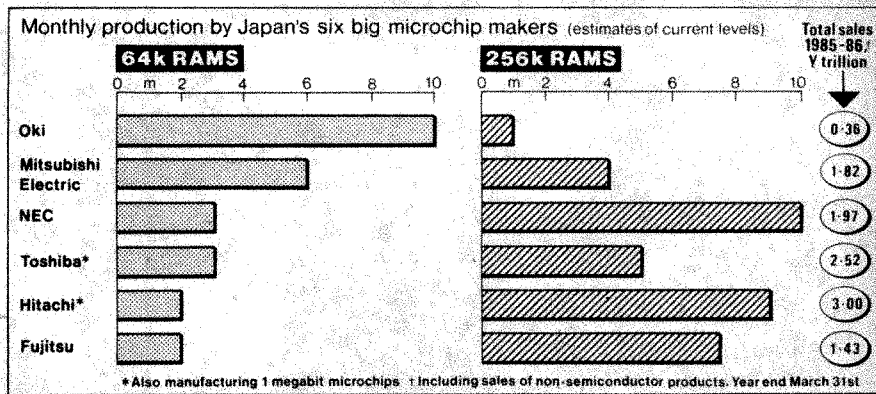
- Whether MITI will fix the price of chips in Japan. Astonishing though it seems, the American Commerce Department and American industry lobbyists want this to happen. It would horrify Japan's big six: Toshiba, Hitachi, NEC, Fujitsu, Mitsubishi Electric and Oki. Yet if MITI does not fix a price in Japan, the Americans say their companies will not be able to get their 20% share of the Japanese market except at a loss.

In the long term, either a deal or anti-dumping duties on chips is likely to make Japanese semiconductor companies move even more of their manufacturing to America. Fujitsu has announced it is to build a plant for semi-customised chips in Oregon. NEC has a plant in Roseville, California. Hitachi is building one at Irving in Texas, and already has an assembly plant in Dallas. Toshiba intends to turn its assembly plant in Sunnyvale, California, into a fully-integrated plant. Mitsubishi Electric has similar plans.

All the same, the deal under consideration is unlikely to hurt Japan's microchip makers as much as they claim. If the voluntary restraints on car exports to America are any guide, a likely result is that the Japanese will sell fewer chips in America but charge higher prices for them. America's microchip makers would also profit from such a deal on chips. The big losers will be the American customers



Sources: Semiconductor Industry Association; Cazenove; company sources



who are charged the higher prices.

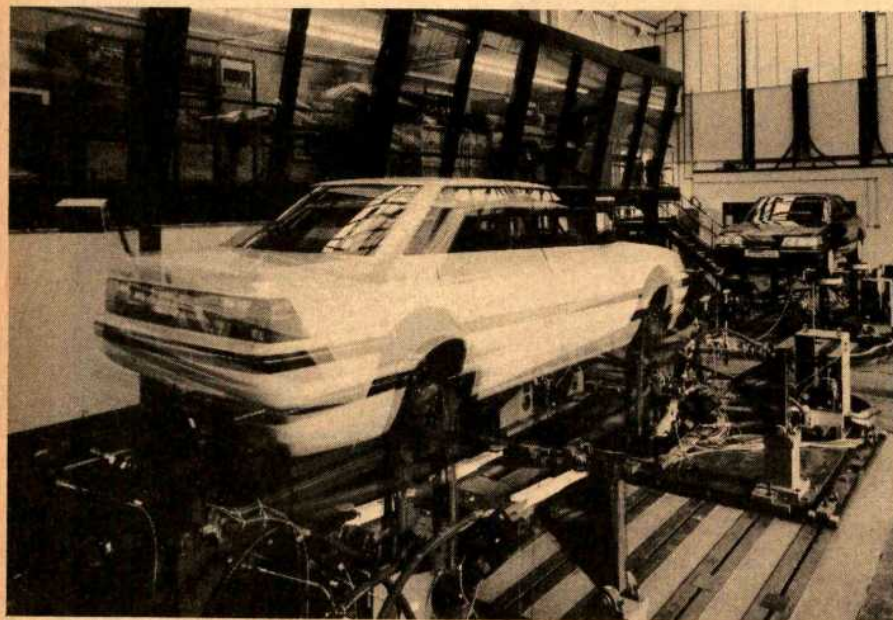
Dataquest, a market research outfit in San Jose, California, estimates the increase in share of the Japanese market that the American negotiators are demanding could be worth an additional \$6.2 billion to American chip makers over the next five years. It predicts that the Japanese semiconductor market will be worth about \$26.8 billion in 1991, compared with \$8.2 billion in 1985. At 20% of this market, American chip sales to Japan could reach \$5.4 billion in 1991, compared with \$784m last year.

BL

Fetch, Rover

The last time Britain's state-owned car-maker changed its name, from British Leyland to BL, it had something to hide: namely, big losses. This time, though still loss-making, the company reckons it will soon have something to crow about. It is no coincidence that Rover should be both the group's new name and the marque under which it has launched its new executive car, the Rover 800-series. The fortunes of one depend largely on the other.

Rover Group, as the company is now called, hopes that the 800-series will give it a lucrative share of the \$40 billion-a-year market for executive cars (see box). Built in partnership with Honda of Japan, the new car goes on sale in Britain on July 11th and will be sold later this year in America as the Sterling. Rover's new production line at Cowley in Oxford will also build the new Honda Legend, which has the same chassis as the Rover 800.



Rover's hopes on the test rig

It's quality, not price

Britain's Rover will have to put its foot to the floor if it is to catch up with its rivals in the executive-car market. An executive car usually has four seats, an engine capacity of at least 2-litres and a price tag of \$20,000 or more.

This year, an estimated 2.3m of such cars will be sold in Europe and America. Of these, Daimler-Benz is likely to sell around 19.6%—worth more than \$10 billion in sales. It is a lead the West German maker of Mercedes-Benz cars guards jealously. In second place, but well ahead of the other volume producers, is General Motors, the American giant. GM owes its position largely to American sales of its Cadillac cars. Ford, in fourth place, would probably do better if more yuppies in the United States bought Lincolns instead of sporty BMWs—which take third place.

Though European imports account for a growing share of the American market, it is on their own side of the Atlantic that European motor manufacturers sell most of the executive cars they make (an estimated 1.24m in 1986). Until recently, a high dollar and bumper American sales caused manufacturers, particularly specialist ones, to concentrate on exports to the United States at the expense of European sales. No longer.

Skinny margins on cheaper cars are forcing volume manufacturers to climb up-market for more profit. A few years ago the Rover 800-series would have been competing against barely a dozen European models; now there are half as many again. This is increasing competition just as sales of executive cars, compared with other sectors of the market, are beginning to level off.

Rover needs a boost. Mr Graham Day, the Canadian who has taken over as the group's new chairman, and who was until May chairman of state-owned British Shipbuilders, said at Rover's annual meeting on July 7th that the company's losses for the six months to June 30th were a lot worse than the £44.8m (\$68m) loss a year earlier.

Not only is the group's Leyland Trucks subsidiary losing money, as are most manufacturers of small lorries in Europe, but in Britain the company's Austin Rover car division is being bruised in a price war among the volume carmakers. The uncertainty over the company's future ownership, intensified by the talks the British government opened and then

closed with America's Ford and General Motors, has scared away customers worried about after-sales service. Rover's share of the market for new cars in Britain during the six months to June 30th declined from just over 18% to 16½%, its lowest level for years.

It is little consolation to Mr Day that sales of the company's middle-range Montego and Maestro cars, and of the popular Metro, are beginning to pick up in the rest of Europe. Because of overcapacity in Europe, carmakers' margins are becoming thinner. So the Rover Group's carmaking division is likely to lose more in 1986 than the £6m it lost in 1985—which means that Rover Group's consolidated operating loss looks certain to exceed last year's £39.5m by a substantial amount.

Only part of this deficit can be made up from the proceeds of the share placing in the autumn of 70% of Unipart, the profitable car-parts subsidiary, which the government wants Mr Day to sell. With luck, Unipart should raise about £40m; a bit less could come from the forthcoming sale of Leyland Bus. But, with an accumulated deficit of £1.8 billion and new models to develop in partnership with Honda, Rover needs a lot more working capital than these sales would provide. Hence Mr Day's hints on July 7th that it may need to dip its hand in the government's pocket—yet again.

Though it has said Rover must now pay its own way, the government may find a request for more money hard to refuse. Mr Day accepted the top job at BL on the understanding that, by the time he took over, the company's loss-making trucks division would have been sold off. General Motors had said it would buy Leyland

Featherbedding for Europe's industry

BRUSSELS

The European Commission has wide powers under the Treaty of Rome to prevent member states distorting competition when they give aid to their domestic industries. Mr Peter Sutherland, the commissioner in charge of competition policy, swears he intends to use them

Since state aid comes in many forms and "industry" is hard to define, nobody is sure how much is dished out by the European Community's member states. One study, by the University of Nancy, put the figure at 34 billion ecus (\$37 billion) in 1981 alone.

Mr Sutherland has ordered an inventory of state aid in the 12 EEC countries by the end of this year. His officials are already having difficulty assessing the value of subsidised credits, loan and export guarantees, equity participation by governments, tax write-offs and the like. There are big differences, too, between amounts planned and actually spent. Comparing French apples and Spanish oranges is going to tax all the experts in Brussels-speak.

Under the Rome treaty, member states are supposed to report to the Commission any extra featherbedding they give their arthritic industries. In the four years 1981-84, the number of notifications (more than 500) was double that in 1977-80. Officials say their monitoring may have got better, but governments had certainly been giving more hand-outs. The number of notifications in 1985 fell back to 133 from 162 the previous year. The Commission claims credit for this. It says the stricter scrutiny being imposed has helped persuade governments to give aid more judiciously.

But most member-states still break or bend the rules—either by not informing the Commission of certain aid programmes or by doling out aid first and asking Brussels for permission afterwards. France is a main offender in both these respects.

The Commission itself has sometimes been accused of bending or changing the

rules under pressure from governments, especially those of bigger EEC countries. Two weeks before the parliamentary elections in France last March, it suddenly cleared a FF1.36 billion (\$191m) aid package for a paper maker, Chapelle Darblay of Rouen, which it had been blocking for months.

The state-aids division in Brussels, manned by 30 bureaucrats, complains that it is under-staffed. Nonetheless, 38 cases—ranging from grants for restructuring Italy's aluminium industry to aid for France's semiconductor businesses—were referred last year for detailed investigation. Many of the grants scrutinised were subsequently altered. Nowadays, more than a third of all aid proposed by individual governments is not implemented as originally planned.

Steel, cloth and ships

Some kinds of aid still get a "block exemption" from investigation. Steel used to be exempt. But since the end of 1985, nearly all aid to the Community's steel industry has been prohibited. The few exceptions include government aid for steel companies to comply with laws to make the air and water less dirty.

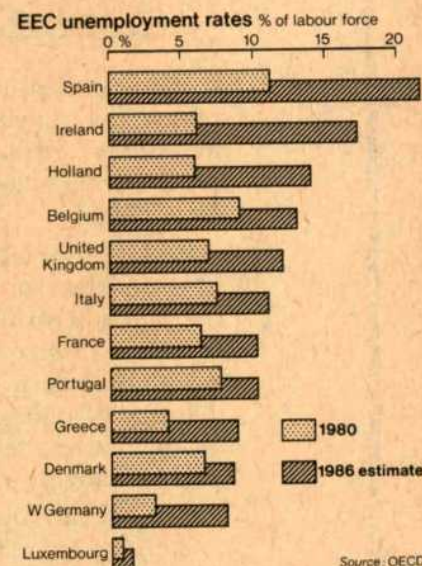
The Commission says that aid for restructuring Europe's textile industry is now forbidden. In 1985, it turned down aid proposals by both Britain and France for schemes that were supposed to boost productivity in their clothing and shoe industries.

At present, aid to shipbuilding is still exempt from the treaty's competition rules, because of the supposed need for the industry to "restructure". So Britain will be allowed to dole out grants to cover the 3,500 redundancies announced in May at British Shipbuilders. But shipbuilding's exemption is up for renegotiation at the end of this year. The Commission wants to see many kinds of aid to the industry blocked. It thinks aid should be concentrated on helping European shipbuilders to move into making smaller, specialised vessels—rather than to try to build big container ships in competition with Japan and South Korea.

The Commission is also drawing a tighter line on research and development grants. It thinks too much aid for R&D goes to big companies which use it to pay for research they would do anyway. Aid for pure scientific research is freely permitted. So is aid to academic institutions. Aid for basic industrial research is normally permitted up to 50% of the cost (60% for those promoting small enter-

prises). But the Commission frowns on money for research if it is merely to replace resources that could be supplied by the marketplace itself. A West German scheme designed to underwrite a portion of the salaries of the existing R&D staff in small companies was quashed.

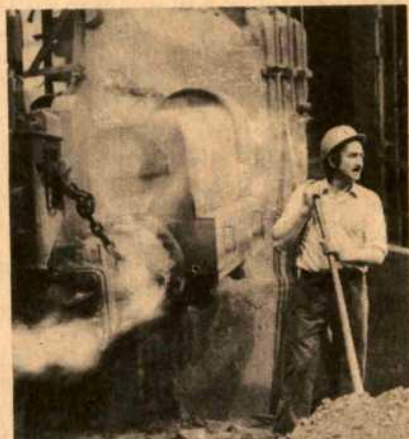
Although regional aid is seen as seriously distorting competition, the commission's brief permits it in supposedly deserving places—eg, to much of Ireland, Greece, Spain and Portugal as well as southern Italy, north-eastern France and northern Britain. To prevent squabbling, the Commission has established rules that link aid to a region's unemployment rate and sometimes its GNP: regions with twice the European unemployment rate are eligible for investment



aid of up to 75% of the capital needed. Aid that fails to meet these conditions can be blocked—as was that to the West German areas around Alfeld, Holzmin-den-Höxter and Itzehoe in 1985.

The main emphasis of the policy on aid in the EEC is supposed to be job creation, rather than job support. In Britain, regional development grants are usually considered acceptable if they amount to no more than 15% of the capital cost of an investment. This can be increased to £3,000 for every job created, provided total aid stays below 40% of the capital cost.

One dodge the civil servants in Brussels are keen to quash is the use of regional aid to conceal support to prohibited sectors—eg, textiles. With 20m new jobs needed within the community before the century is out, Mr Sutherland is keen to dissuade member states from rescuing bankrupt businesses at the expense of technologies for tomorrow.



Shovelling in more aid

“Profit attributable to shareholders at a record high”

R W Rowland, Chief Executive

Dear Shareholders,

It is with pleasure that I am able to present the half year figures with an increase in profit before tax to over £71 million and profit attributable to shareholders at a record high.

Profit attributable to shareholders at £34.7 million is up by 20% compared with last year and earnings per share have risen by 18%. The second interim dividend has effectively been increased by 10%, as a dividend of 4.00 pence per share has been maintained on the increased share capital following the 1 for 10 capitalisation issue.

Our African companies have traded very well during the last six months. Companies operating in some of these areas have been affected by adverse exchange rate movements, and the result has been to reduce profit when reported in sterling. The substantial profit improvement in our U.K. activities has had a beneficial effect on our results, thereby enabling us to report an overall increase in both profit before tax and profit attributable to shareholders.

Our hotel interests in the United Kingdom have performed well, but the results of

Princess Properties International have been affected by the decline in the U.S. dollar and a short term reduction in the popularity of Mexico as a holiday location following the earth tremors. The opening of our new casino in Queensway, London proceeded successfully, and this casino is a fine addition to our prestige gaming activities.

Production at our mining operations has increased, as compared with last year.

The acquisition of ten Scotch whisky brands, including the famous Haig brand, by our subsidiary, Whyte & Mackay, has further strengthened their position by making them the second largest distributor of Scotch whisky in the United Kingdom.

The Group's printing and publishing operations have reported a marked increase in profitability, which is a very pleasing result in these highly competitive markets.

I am confident that the Group's pattern of consistent growth will be maintained during the rest of 1986.

*Yours sincerely,
R W Rowland*

3 July 1986

The unaudited results of the Lonrho Group of Companies
in respect of the six months ended 31 March 1986 are as follows:—

	6 months to 31 March 1986 £m	6 months to 31 March 1985 £m
Turnover	1,266.0	1,276.6
Profit before tax	71.1	70.7
Tax	30.1	35.4
	41.0	35.3
Minority interests	6.3	6.5
Profit attributable to shareholders before extraordinary items	34.7	28.8
Earnings per share	11.7p	9.9p

Notes:

1. The Group's share of the turnover of associates for the six months ended 31 March 1986 was £277.7m (1985—£328.8m) and is excluded from the above.
2. Profit before tax includes profits from associates of £15.4m (1985—£16.6m).
3. Tax charge; because of the incidence of accelerated capital allowances, the tax charge provided at the half year can only be estimated.
4. Earnings per share have been adjusted for the capitalisation issue on 25 April 1986.
5. Extraordinary profits £4.9m (1985—£47.4m).

Dividend

The Board has declared a second interim dividend of 4.00p (1985—4.00p) per share (equivalent to 5.6338p per share including the related tax credit) for payment on 1 October 1986 to shareholders on the Register at 29 August 1986. This dividend is in addition to the first interim dividend of 1.00p (1985—1.00p) per share (equivalent to 1.4286p per share including the related tax credit) declared on 30 January 1986 and paid on 4 April 1986. The cost of the first and second interim dividends amounts to £15.0m (1985—£13.4m).

LONRHO

LONRHO Plc, CHEAPSIDE HOUSE, 138 CHEAPSIDE, LONDON EC2V 6BL

WORLD BUSINESS

Trucks if it could also have BL's profitable Land Rover subsidiary. For many of the government's supporters in parliament, this proved too much to swallow. The deal was called off. So, for roughly the same reasons, was the proposed purchase by Ford of the Austin Rover carmaking division.

This leaves Mr Day with an unexpected headache. What he does to get rid of it will be decided after an "operations audit", due to be completed by the end of July. Meanwhile, Mr Day has split Rover Group into three main divisions: Austin Rover, the volume carmaker; Leyland Trucks; and Land Rover, which also makes the popular Range Rover and Sherpa van. With the departure of Mr David Andrews, the executive director of the commercial-vehicles division, and of Mr Ray Horrocks, executive director of the car division, Mr Day is the group's only executive director.

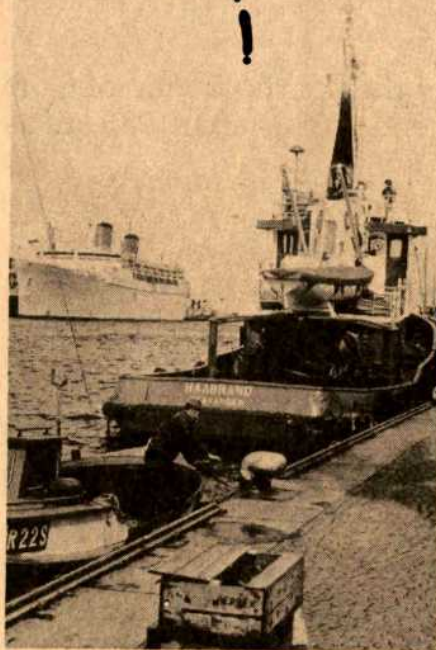
His best hope of putting Rover Group back on the road to profits lies with the new Rover 800. Priced in Britain at between £11,820 and just under £19,000 for the top-range 825i model, it is aimed squarely at the executive-car market. Around 1,500 of the cars will go on sale in Britain on July 11th through some 800 dealers. Why so few cars? Partly because, in an effort to overcome its reputation for shoddy workmanship, the company says it has deliberately restricted the number of cars built; partly because, for once, it would like a Cowley-made car to be sold at a premium price.

A pipedream? Not, it seems, to the 140 or so dealers who, starting in November, will begin to sell the car in America. Austin Rover Cars of North America, the company's marketing joint-venture in the United States, says it has already received orders for around 30,000 Sterlings. Even if only half of those are sold, Rover will get more than £150m in cash—the cost of building the new engine and assembly lines in Longbridge and Cowley. As Jaguar, a one-time BL subsidiary did before it, Rover must be hoping that the value of sterling goes down against the dollar, so that the value of each Sterling car sold in America goes up.

Flags of convenience

Aflutter

Shipowners are discovering a new way to cut manning and maintenance costs while sailing under their national flag. The trick is to switch the registration of their ships to offshore places under the sovereignty of their country. British shipowners are defecting to the lowly-taxed Isle of Man; French ones to the Kerguelen Islands, a



Off to Spitzbergen

collection of rocks in the Antarctic; and, if the establishment of an international register in the North Sea gets the go-ahead next year, Norwegian ones will be going to the island of Spitzbergen.

These flags-within-flags have one thing in common: they allow shipowners to dodge the expensive manning arrangements won by the seamen's unions. A bulk carrier of, say, 140,000 tonnes (deadweight) would cost around \$4,000 a day to crew with French nationals. Register it in the Kerguelen Islands and the average daily bill is halved. This is mainly because, under the rules laid down by the French government, up to 75% of the crew of a Kerguelen-registered vessel may be foreigners; only the remaining 25% (including at least four officers) need to be expensive French nationals.

British shipowners have as much reason to go offshore. The General Council of British Shipping, the owners' lobby, reckons that, at the end of 1985, a trading vessel of 10,000 gross tons cost about \$962,000 a year to crew with British nationals. Transfer the ship to a Far East register (eg, Hongkong) with an Asian crew and the cost comes out at about \$541,000—the difference for some, during a recession in bulk shipping, between staying in and going out of business.

The Isle of Man is proving an attractive alternative. As with Hongkong and Bermuda, ships registered there can fly the red ensign, the British merchant flag. The scheme started in 1983 and the Isle of Man now has more than 50 ships on its register. Several big companies, including Denholm and Ellerman, have re-regis-

tered vessels there. Last week, the island got approval to introduce the "Marpol" standard on marine pollution. This means that tankers can be registered on the island without fear of contravening international regulations.

First to take advantage of the convention was Canadian Pacific (CP), the big Bermudan-based shipping line. It is transferring its fleet of 12 tankers to the Isle of Man. Two of CP's bulk carriers are already registered there. Around 600 of CP's officers will get new "offshore" contracts—ie, their pay and pension entitlements will be paid into bank accounts on the island. CP expects to make "substantial" savings on crew costs. It needs to. Last year, it lost \$32.5m from bulk shipping.

The drift to the Isle of Man and better-known flags of convenience has made a big dent in the amount of merchant tonnage registered in Britain. In 1980, Britain had more than 27m gross tons on its register; at the end of 1985, that had fallen to 14.3m. During the same period, the tonnage under the Panamanian flag doubled to more than 40m gross tons. In some newly-emerging flag-flogging nations, the increase has been even bigger: 250-fold in Gibraltar (admittedly from a low base) to 583,227 tons; fourfold in Cyprus to more than 8m tons; and from virtually nothing in Vanuatu (the old New Hebrides) to 225,000 tons.

The most notable of the recent defectors from the British register was British Petroleum. In January, it transferred 29 of its tankers to Gibraltar, the Bahamas or Bermuda. Its existing arrangements on offshore manning had fallen foul of British law; BP Shipping had also lost £29m in 1985 on turnover of £260m. By "flagging out", it hopes to save £10m-12m a year in manning costs.

Britain is not the only western shipping nation to find itself with a slimmer merchant fleet. In January 1985, Norway had 754 ships, of nearly 30m deadweight tons, under its flag. By January this year, that had fallen to 667 ships, weighing less than 17m tons. During the same period, the number of Norwegian-owned ships flying flags of convenience rose from 303 to 349. Since the beginning of 1986, about 10% of Norwegian-registered ships have been re-registered under flags of convenience.

Little wonder, then, that Norway's former conservative-led coalition government should have proposed setting up an international register on the island of Spitzbergen. As in Kerguelen, the register would allow shipowners to employ more foreigners than natives in their crews. The resulting savings may not be enough to dissuade shipowners from re-registering their vessels under even cheaper flags like Vanuatu's. Norway's

All of these securities having been sold, this advertisement appears as a matter of record only.



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Representing

40,000,000 Ordinary Shares

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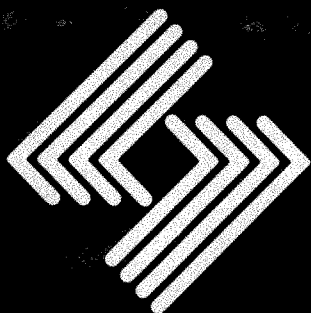
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July, 1986



CREDIOP

CONSORZIO DI CREDITO PER LE OPERE PUBBLICHE

SUMMARIZED BALANCE SHEET AS AT 31st DECEMBER 1985 (US dollars in millions *)

ASSETS		LIABILITIES AND STOCKHOLDERS' EQUITY	
Liquid funds	324	Bonds and other financing	10,887
Securities	1,571	Other liabilities	1,964
Investments in companies and institutions	64	Provisions	751
Loans	11,232	Capital	12
Other assets	1,037	Reserves	494
		Net earnings for the year	120
	14,228		14,228

* Amounts expressed in US dollars converted at the rate of Italian lira 1,678 = US \$ 1.00

- The accounts for the financial year 1985 closed with **net earnings** of US \$ 120 million, after charges for **various provisions** totalling US \$ 73 million.
- The Stockholders' Meeting approved the transfer of US \$ 117 million of the net earnings to **reserves**, which thus reach US \$ 611 million.
- **Loans granted** in 1985 amounted to US \$ 1,374 million, have an average term of 8 years and 6 months, and were distributed as follows: 51% to Corporations, 24% to Local Authorities, 22% to Public Entities and 3% to Foreign Entities.
- The proceeds from medium and long term **funding operations** concluded in 1985 totalled US \$ 1,582 million, including the issuance of **bonds** for an aggregate amount of US \$ 946 million.

The statutory accounts for 1985 have been audited by **Peat, Marwick, Mitchell & Co.**

HEAD OFFICE
Rome/Via Quintino Sella, 2

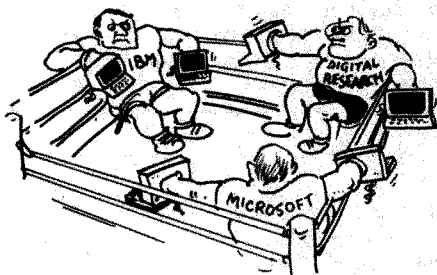
REGIONAL OFFICES
Milan / Naples / Bari

newly-elected Labour government has promised a decision on the register in the spring of 1987. By then, according to the shipowners' lobbyists, Norway's merchant fleet could have dwindled by at least a further 10%.

Computer software

Hard fight

A three-cornered fight is developing for a fast-growing bit of the computer-software market: "operating environments" that promise to make personal computers more powerful and easier to use. In the five years 1986-90, Dataquest, a market research firm, predicts that sales of these programs may grow by nearly 75% a year—four times as fast as the software market as a whole. IBM is losing the



competition for operating-environment sales to two young firms: California's Digital Research and Washington state's Microsoft. Last into the market, Microsoft looks like emerging the big winner.

The rewards of success in operating environments are twofold. First, a market worth about \$24m in 1985 and forecast to grow to \$378m in 1990. Second, the strategic value of the product. Success in operating environments can help sell both applications software like word processors and the "operating systems" which keep applications software working smoothly with computer hardware.

Operating environments do several jobs. They extend the capabilities of the operating system to allow users to switch more quickly between, say, a word processor and a spreadsheet. They help the user master the complications of dealing with a collection of applications programs. They make it easier for the producer of applications programs to shift programs from one type of computer to another type.

Sales can prove sticky. Retail salesmen are handicapped because so few computer users know what an operating environment is—let alone why they should want one. Computer-makers are reluctant to "bundle" the package with hardware or software until it has proved popular.

Digital Research took an early lead in

the market for operating environments in 1984 when it signed a deal with Atari to distribute its GEM program with Atari's ST series of home computers. IBM launched its Topview around the same time as Digital Research's GEM, but it had only modest success in getting the program accepted for its own computers, let alone others. Microsoft, meanwhile, was still getting the bugs out of its Windows program—which was launched, over a year late, at the end of 1985.

A more sophisticated program than GEM, Windows works best on the second-generation of IBM-compatible computers using the 80286 chip. Although these machines are outnumbered roughly ten to one by standard PCs, Windows is quickly proving a winner in the marketplace. Microsoft wrote the DOS operating system for IBM and IBM-compatible computers. So it had the technical knowhow to integrate Windows tightly into the workings of the computer. It also had close business ties with software developers—eg, Ashton-Tate and Lotus Development—to convince them to adapt their programs to take advantage of Windows.

Microsoft's marketeers also beavered to get computer-users to put Windows to work on high-profile jobs. Reuters is using the software to prettify its news bulletins. New York financial institutions are putting their on-line prices and statistics into Windows. Microsoft will get a further boost with the introduction later this year of chips specially designed to speed the display of text and graphics windows (see page 82).

South African miners

Lost leaders

Wildcat strikes and political conflict are everyday events in South Africa's mines, but over the past few weeks black workers have become even more militant than usual. Strikes have broken out in the gold, coal and diamond mines—in protest against the detention of nine mine union leaders since the government declared a state of emergency, as well as against the arrests of thousands of dissidents. And South Africa's largest trade union, the National Union of Mineworkers (NUM), is also gearing up for a countrywide strike in the gold and coal mines in support of demands for a 30% wage rise.

Mr Cyril Ramaphosa, the NUM's general secretary, is still free though in hiding. Its vice-president, Mr Elijah Barayi, is the most prominent of the union detainees. He is also a leader of the trade union federation COSATU. Many of his colleagues would like to see the NUM, its largest member, launch itself immediate-

ly into an all-out political strike. This would not have the protection of the courts—but could throw gold, coal and diamond production into disarray. The NUM claims 280,000 signed-up members among the country's 550,000 black miners. Some 150,000 of them have paid up.

So far, NUM head office has resisted COSATU pressure, preferring to go by the rule book on dispute procedures. At its latest meeting with the Chamber of Mines, the union rejected the offer of a 15-20% rise and declared itself in formal dispute over wages, the first step towards a legal strike. It also demanded that the Chamber help it secure the release of NUM detainees. Chamber negotiators agreed to put the demand to mining-company members, which provide 80% of the country's export earnings and so have some political clout.

The NUM's response is characteristically cautious. It is telling members to organise action at mine level to protest about the detentions. That way workers risk their jobs, if they so decide, while head office concentrates on the wage dispute which is expected to result in a bigger, legal strike next month. So far 2,000 miners at De Beers diamond mines have refused to work (some have now gone back) and 8,000 workers have organised a go-slow at Anglo American Corporation's Free State Geduld gold mine, cutting production there.

If there is a big strike next month, it will probably be short-lived. Anglo American, a mining company with substantial interests in other (black-ruled) African states, employs 80% of NUM members and is likely to conclude a separate deal with them, breaking away from the other mining houses by offering above-Chamber rates of pay.

This year's wage strike could send precious metals prices up for a short while. But more significant is the prolonged state of unrest in the mining industry as politically-motivated strikes proliferate. Already the NUM's Johannesburg offices are packed each day with miners who have been dismissed because of wildcat strikes and who need money for the long journey home.

Agriculture

Muddle and misery in the third world

Developing countries are net importers of the very stuff that they should be able to produce most cheaply—food. This most depressing of trade deficits provides the starting point for this year's World Development Report, the tome handed down

WORLD BUSINESS

annually from the World Bank's mountain top*. Chart 1 tracks two indicators of the increasing distortions in world food markets.

Nobody doubts the cause of the distortion: industrial countries subsidise their farmers; developing countries tax theirs. The report provides hard evidence of how great these muddled incentives can be. Farmers are taxed if domestic agricultural prices are lower than world prices; subsidised if they are higher (chart 2). That much is conventional wisdom. The Bank has added to the wisdom by asking two Australian academics, Mr Rodney Tyers and Mr Kym Anderson, to see what would happen if domestic prices in all countries were the same as world prices (ie, if agricultural protectionism were scrapped). The result: industrial countries would gain \$48.5 billion a year if they disarmed unilaterally; developing countries would gain \$28.2 billion if they did the same. But each group imposes losses on the other. If both disarmed together, the world would be better off.

Developing countries would gain less than industrial ones because they have so few subsidies to dismantle. What dominates third-world farm policy are things like overvalued exchange rates (which make imported food artificially cheap) and tariff barriers (which promote industrial growth at the expense of farmers' profits). The Bank takes the third world to task for such self-defeating policies. But the most outspoken feature of its report is not the attack on third-world farm taxation or rich-country subsidies. It is the argument that governments in developing countries harm their farmers when they try to help them.

Third-world governments try to encourage food production through:

- **Marketing boards.** Food and export crops in most developing countries are bought and sold by public marketing agencies. The avowed aim is to prevent

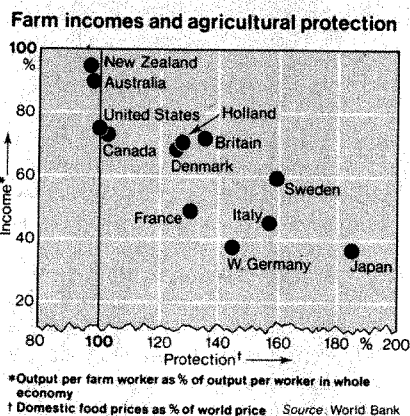
More is less

The chart below summarises the most striking part of the argument against subsidising farmers in industrial countries—that subsidies do not even benefit farmers themselves. The vertical axis shows how rich farmers are compared with other workers; the horizontal axis

how much farm subsidy governments provide. The plots slope downwards—ie, the more subsidies farmers get, the worse off they are.

Note the necessary caveats. First, farm policies depend partly on farmers' incomes; subsidies rise because farmers are poor. (In Europe and America, though, government support is based on farm output, not farmers' income.) Second, subsidies increase farm incomes more in the short term than the long term; the long-term effects of any one policy are obscured by constant streams of new policies. Third, even in industrial countries, figures on farmers' incomes are often unreliable.

Farm policies have been running long enough to have pushed up farmers' incomes, if they were ever going to. They will not. In industrial countries, extra revenues from government agricultural subsidies drive up land prices; land owners make capital gains; and land users' incomes fall behind.



unscrupulous private traders from exploiting simple farmers. In fact, monopoly market boards often charge monopoly profit margins. In Kenya, where private and public traders co-exist, the public sector charged 15-20% more for marketing maize and beans than did the private trader.

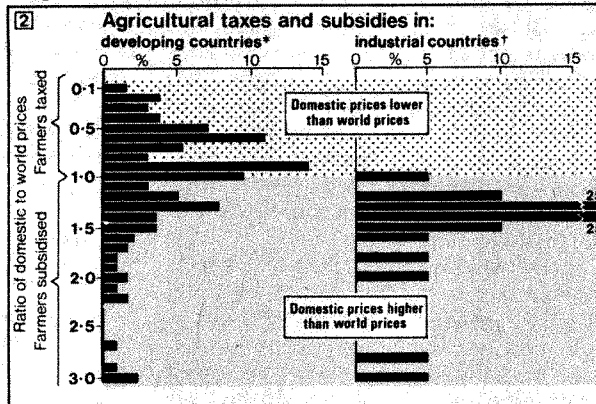
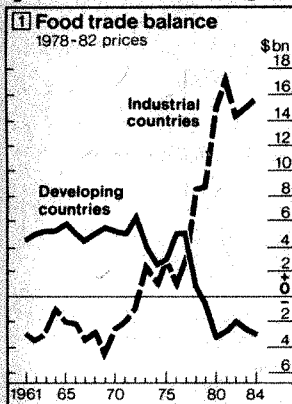
- **Fertiliser subsidies.** Governments make fertilisers artificially cheap. In the extreme case of Nigeria in the early 1980s, the government bore 90% of the cost; subsidies of 50-70% were common. Farmers, at least, ought to benefit, even if the public purse is strained. In fact, the report says, they do not. To work, the right fertiliser has to be delivered at the right stage of the crop cycle. Third-world governments, struggling with incompetent administration and bad roads, often

deliver fertilisers late, provide the wrong kind or have insufficient to sell at the cheap price (so farmers have to scramble for extra supplies on the expensive black market). In Bangladesh, 10% of the development budget went on making fertilisers cheap in 1978-79; when the government reduced the share to 2.4% in 1984-85, the average cost of fertilisers actually went down.

- **Mechanisation subsidies.** This means underwriting the cost of tractors and suchlike. Because tractors are commonly imported, overvalued exchange rates and preferential allocation of rationed foreign exchange make farm machines cheap even without special subsidies and tax breaks. The benefits go to rich farmers and tractors replace jobs among poor people.

- **Credit subsidies.** All developing countries provide cheap loans to farmers. Governments say farmers could not otherwise get loans because money lenders fear that they will not pay them back and because they often have inadequate collateral. In fact, there is little evidence to show that farmers default on loans—but the evidence is strong that cheap loans go mainly to the rural rich. As with the other attempts to rig rural markets, subsidising credit means rationing resources so that the rich benefit most—while the supply of the resources themselves is lowered. Better, says the Bank, to liberalise rural financial markets to boost rural savings.

Free traders' growing despair

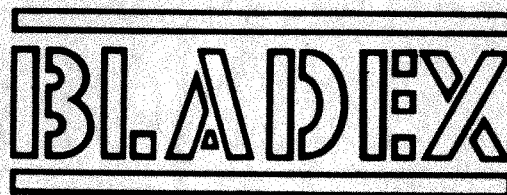


Based on: *189 products in 37 countries, 1979-81 †20 products in 4 countries, 1979-81

Source: World Bank

*World Development Report 1986. A member of our staff, John Parker, was seconded to the team which wrote the report.

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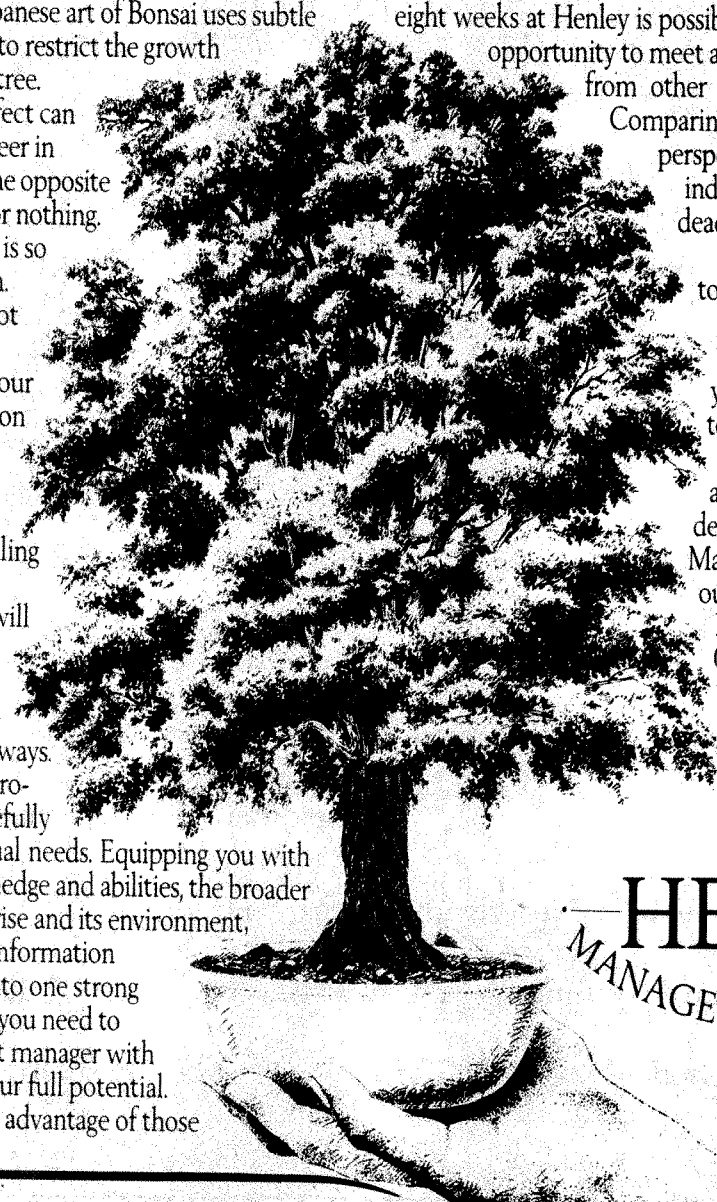
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ISRAEL'S ECONOMY

Inflation is down, but not quite out



Those headache days are over

During the seven years to 1985, consumer prices rose in Israel by more than 100,000%. Yet few Israelis seemed particularly fussed. They were cushioned from the harm of inflation by automatic indexation which linked wages, savings and rents to prices. Indeed, some Israelis believed that while inflation was officially 400-500%, the "real" inflation rate was only 20%.

Indexation may have made hyperinflation painless to live with, but the economic cost was still heavy. Seven years of triple-digit inflation blurred perceptions of real rates of return and distorted company balance sheets. Industry could make more money, or lose less, by juggling its finances than by fretting about productive efficiency.

The Labour-Likud coalition government, formed after the July 1984 election, made two half-hearted attempts to halt inflation through deals with the unions and employers which froze prices and wages. But the government failed to trim its budget and the shekel continued to

slide on the foreign exchange markets, so inflation was only temporarily suppressed, ready to erupt more ferociously once the deal fell apart.

By mid-1985, the country's economic troubles were unsuppressible. Inflation was up to monthly rates of 20%, foreign-currency reserves were dwindling, and the government was finding it difficult to finance its massive budget deficit at home or abroad—Israel's foreign debt of \$24 billion is the highest per person of any country in the world.

On July 1st last year, the prime minister, Mr Shimon Peres, got to grips with the problem. His approach had four prongs.

- The budget deficit was to be cut from 15% of GNP to 8%.
- The shekel was devalued by 19%, and then fixed at around 1.5 new shekels to the dollar.
- Prices and wages were frozen for three months, and—the bravest part of the plan—the automatic indexation of wages to prices was suspended. This resulted in

an immediate 20% drop in real wages. However, after the Histadrut, the trade union organisation covering 85% of the workforce, brought the country to a halt for 24 hours, Mr Peres agreed to a wage catch-up of 4% a month between December and February.

- Tight credit control through high interest rates. In September 1985, real rates of interest stood at an annualised 100%; they have since fallen, but remain high. In addition, a first step was taken to reduce the degree of indexation of financial assets: new deposits in PATAM (foreign-currency linked) accounts were restricted to periods of more than 12 months.

Few Israeli economists disagreed with the government prescribing the traditional macroeconomic medicine of fiscal and monetary discipline. Price and wage controls were more controversial. A freeze, many complained, would distort relative prices and make failure more likely.

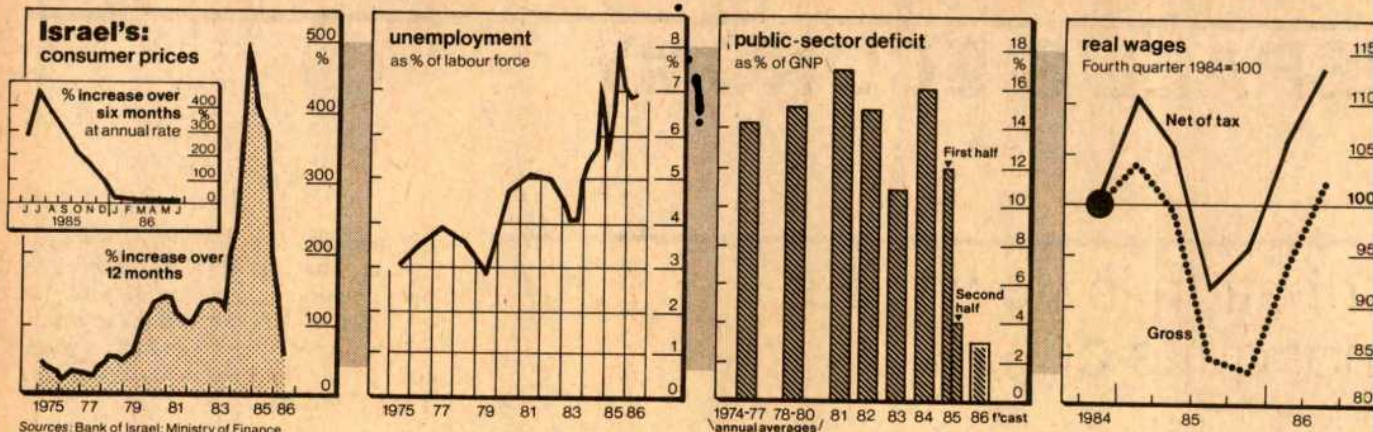
The dominant school, led by Professor Michael Bruno—the chief architect of the stabilisation programme and now governor of the Bank of Israel—countered that while cutting the budget deficit was a necessary step for disinflation, it was not sufficient.

The budget deficit cannot on its own explain the jumps in Israel's inflation rate during the past decade. True, the deficit was huge, largely as a consequence of massive defence spending, but it had remained steady at around 14-15% of GNP. Professor Bruno and his colleagues say that the lack of a monetary anchor was to blame for the acceleration of inflation. The shekel value of the bulk of Israel's financial assets is linked to shekel prices or to the dollar exchange rate. The money supply therefore fully accommodates itself to any increase in prices.

A familiar cycle of events in Israel starts with a balance-of-payments crisis. This leads to a big devaluation of the exchange rate and cuts in subsidies to trim the budget deficit and the overseas borrowing that it entails. Both actions raise prices and in turn, through full monetary accommodation and wage indexation, result in a sustained higher rate of inflation.

For many years, Israeli economists have pondered how to break this vicious circle. One scheme favoured by some in the Bank of Israel's research department was dollarisation. This would have involved replacing the shekel by the dollar, for a temporary period anyway. But dol-

ISRAEL'S ECONOMY



larisation got a bad name when it was first proposed in late 1983. The then finance minister, Mr Yoram Aridor, announced the plan immediately after a crash in the value of banking shares. It sounded ill-thought out, and within 24 hours Mr Aridor had to resign.

Though some Israeli economists still hanker after dollarisation, the adopted stabilisation plan in fact provides the same anti-inflationary mechanism while allowing the government more flexibility (which, of course, could be the plan's downfall). Tying the shekel to the dollar provides a nominal anchor for the economy; the price and wage freeze defuses indexation; and the budget cuts take pressure off the balance of payments and the exchange rate.

That is the theory: what about the results?

- Consumer prices have risen at an annual rate of 20% in the first half of this year, compared with an underlying rate approaching 1,000% at the end of 1984. Meanwhile, price controls are being gradually removed with little sign of repressed inflation. The prices of only about half the goods and services are still controlled and roughly half of these are goods such as electricity and public transport which the government has always controlled.

- The budget deficit has been slimmed by more than was planned, to only 3-4% of GNP in the period since July 1985.

- Israelis have regained confidence in their currency. They have shifted out of dollar-linked assets into unlinked shekel accounts. The share of unlinked assets in the public's total liquid assets has jumped from 18% in June 1985 to 38% this year. A further sign of confidence is the sharp fall in the black market dollar premium from 25% to 5%.

- In 1985, Israel had an external current-account surplus—\$1.1 billion—for the first time ever. Even without the \$750m of extra American aid, the current account would have been in surplus. In the past year, foreign-currency reserves have risen by 60% to the equivalent of two and

a half months of imports.

- The cost of stabilisation in terms of output and jobs was less than expected. On the eve of the programme, unemployment was 6.4% of the labour force. It rose to almost 8% in the autumn of 1985 and it was feared it might jump to 10% by the end of the year. Instead it has fallen back to below 7% this year—though by Israeli standards this is still high.

The success of these first 12 months has exceeded most economists' dreams. But it cannot all be attributed to the policy.



Professor Bruno gets a grip

Israel was helped by three windfalls: lower oil prices, the dollar's fall against the currencies of Europe—the destination for 40% of Israel's exports—and extra American aid.

The main danger to the plan lies in its success so far. This is breeding a feeling that the government can now afford to relax. Yet to give a little now could mean losing a lot. Israel's inflation rate is still well above the average in the OECD area, and there is still a high risk that Israel's hyperinflationary expectations and habits could reassert themselves.

The two vulnerable areas are wages

and the budget deficit. The outcome of the national wage negotiations which opened at the end of June is critical. One worrying development is that private-sector real wages have risen rapidly this year and are more or less back to where they were before the programme was implemented. If real wages continue to rise, industry's international competitiveness will be eroded again.

The government has made it clear that it sees no room for any rise in real gross wages, but says that it will raise workers' take-home pay by cutting taxes. The Histadrut, despite some tough talk, is likely to adopt a fairly moderate line. It is, after all, more than just a trade union: it is also Israel's second largest employer (after the government).

Moderation has its price. First, the Histadrut wants compensation for low-paid workers. Their net pay has been squeezed most because if you do not pay tax you cannot benefit from tax cuts. Second, it wants wage negotiations at industry rather than national level, linking pay rises to productivity. The trouble is that productivity in the public sector cannot be measured, and it is here that unions are likely to be the most militant because the real pay of their members has fallen behind that of employees in the private sector. The nurses will mount the first challenge.

The second big worry is the budget deficit. True, it has been slashed, but by the wrong means. Most of the slimming has come from higher taxes—partly because lower inflation automatically increases the real value of tax revenues collected, but also from extra levies on foreign travel, cars and property. Total tax revenue rose from 42% of GNP in fiscal 1984 to 50% in 1985.

On the expenditure side, cuts were mostly restricted to subsidies. Real government activities have barely been touched. To consolidate the gains of the past 12 months the government must now sharpen its axe. But with defence and debt servicing swallowing two-thirds of

A U.S. spacecraft orbiting Venus made the first close-up views of Halley's Comet, giving scientists valuable insights into the comet at a time when it was on the far side of the sun and direct observations from Earth were impossible. NASA's Pioneer Venus Orbiter, built by Hughes Aircraft Company and circling Venus since 1978, conducted its investigation a month before five other spacecraft flew by the comet. The Orbiter was delicately repositioned with precise commands from Earth to observe Halley's at its closest point to the sun, a distance of about 55 million miles. The spacecraft measured changes in the comet caused by intense solar heating. It also provided an ultraviolet image of Halley's and its large surrounding hydrogen cloud. Data gathered by the Orbiter helped scientists determine the gas composition of the comet, the rate at which water vaporized, and the ratio of gas to dust in the comet.

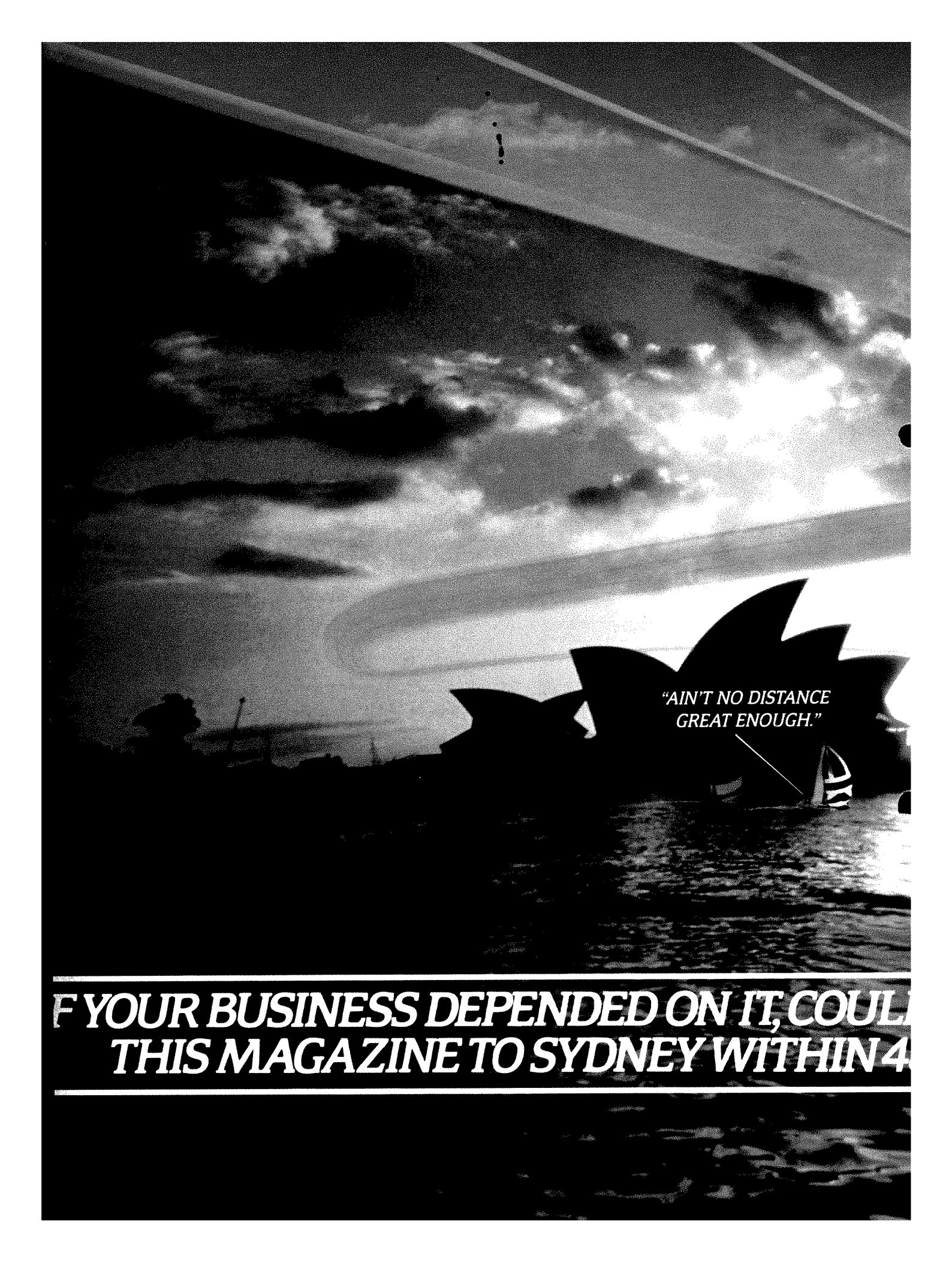
A tactical military radio for vehicles or base stations is based on a dependable and proven high-frequency Manpack radio. The AN/GRC-213 extends the capabilities of the AN/PRC-104 Manpack to meet tough mobile applications. Large-scale integrated circuits and modern design add to the reliability and flexibility over earlier radios. The compact 20-watt unit can be installed easily in virtually any wheeled or tracked military vehicle. Fully automatic tuning reduces operator training and requirements to a few simple operations. Now adopted as the U.S. military standard, the AN/GRC-213 is in production at Hughes for the U.S. Army, Navy, Marine Corps, and Air Force. The radio meets international needs as well.

To reduce contamination from airborne particles, and thus prevent problems with the sensitive gimbal assembly in the Infrared Maverick missile, Hughes has built an environmentally controlled production line in Tucson, Arizona. Laminar flow units were installed to filter air along the walls, floor, and ceiling — removing 99% of all particles as small as 0.5 microns in size. In addition, vinyl-covered chairs replaced dust-generating fabric chairs; walls and ceilings were treated with vinyl; and wire storage racks were added to deter particles from settling. Since the new environment was created, particle counts dropped from 300 per cubic foot to 100 per cubic foot. Rework has been reduced and reliability has improved. Hughes builds IR Maverick for the U.S. Air Force.

West German F-4F Phantoms will be able to fire AIM-120 AMRAAM missiles—and thus be substantially more effective in their role in NATO's air defense—after being equipped with new AN/APG-65 radars. The radar was developed for the F/A-18 Hornet Strike Fighter. It is an all-digital multimode system designed for both air-to-air and air-to-surface missions, and can be modified to meet new threats simply by reprogramming airborne computer software. Hughes, which designed and developed the AIM-120, also builds the APG-65. Hughes is participating in the West German Air Force F-4F Improved Combat Efficiency program under contract from Messerschmitt-Boelkow-Blohm for the definition phase. The company will also work with AEG-Telefunken.

TOW anti-tank missiles scored 22 hits out of 23 fired from U.S. Army Bradley Fighting Vehicles during a tactical exercise conducted in West Germany by the U.S. armed forces. One vehicle fired two missiles within 35 seconds, both of which hit their targets. The exercise was witnessed by representatives of 11 NATO countries. Deliveries of Bradley TOW (tube-launched, optically tracked, wire-guided) weapon subsystems, produced by Hughes, recently exceeded 2,000 units. The subsystem includes an integrated day/night sight unit that enables gunners to direct TOW missiles, cannon, and machine gun fire with pinpoint accuracy.

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the total budget, Mr Moshe Nissim, the finance minister, will need to attack a lot of cherished trees to make much difference to total state spending. He must also take a tough line with ailing companies pressing for government help: high real interest rates and lower inflation have laid bare years of mismanagement.

Despite these question marks, the success against inflation will probably be sustained because government, businessmen and the trade unions all know that it must. This does not mean that the economy is off the danger list. Mr Dov Lautman, president of the Manufacturers' Association of Israel, likens the Israeli economy to a man crippled not only by heart disease (hyperinflation), but also by cancer. The doctors have found a new drug to prevent a fatal heart attack, but the cancer could still kill him. Israel's cancer is its bloated bureaucracy and over-generous welfare state.

The level of state involvement in the economy is striking. The government simultaneously taxes, subsidises and regulates everybody's every move. This stifles private initiative and growth. Israel's GNP growth has dropped from an annual average of 9% in the 1960s and the early 1970s to only 2½% during the past ten years. So further policy changes are needed, including:

Lower taxes. Israelis are among the most heavily taxed people in the world. Workers on fairly moderate incomes can face marginal tax rates of 70-75% (including national insurance contributions). To employ a skilled engineer costs a firm \$30,000 in salary plus another \$20,000 to cover social insurance and pension costs. The total sum of \$50,000 is roughly the same as a firm would pay to employ an equivalent engineer in America. The difference is that after tax the Israeli's take-home pay is only \$9,000; the American's is \$28,000.

Freer capital markets to give companies direct access to finance. Companies find it almost impossible to raise money freely in Israel. The capital market is effectively nationalised because of the government's enormous borrowing needs. All bank loans require government approval; the banker acts merely as a money shuffler.

Cuts in red tape. In certain activities the government controls both the price and the level of output. Try, for instance, to take a taxi in Israel. The government restricts the number of licences and fixes the metered price at a relatively low fare which makes some journeys worthless for the cabbie once the state has taken its cut. Result: a shortage of taxis. Yet the visitor finds Israel is full of taxis with "broken" meters, whose drivers are (illegally) keen to negotiate a price.

In the early years of the building of the

state of Israel, central planning and state paternalism may have been the most appropriate way to turn a wilderness quickly into the promised land—to provide jobs, education and housing for immigrants. However, Israel's basic infrastructure and industry have long been completed; to succeed, individuals and firms now have to learn how to take decisions themselves.

Israel's people are talented: gifted scientists, resourceful entrepreneurs and a highly motivated workforce. Too many are being held back—or, worse still, driven away to America's Silicon Valley—by punitive taxes and red tape. Last year, for the first time in Israel's history, more people left the country than arrived.

Still hooked on helpful Uncle Sam

In 1985 for the first time ever, Israel had a current-account surplus, of \$1.1 billion. Only two years earlier, it had a record deficit of \$2.1 billion. This year, the current-account surplus could increase further: tourist revenues have been hit by "stay-at-home" Americans, but cheaper oil promises to bring a saving of up to \$500m. However, these aggregate figures conceal as much as they reveal. Last year, Israel still had a deficit of \$4 billion (20% of GNP) on its total trade in goods, services and interest payments. This gap was bridged by unilateral transfers: \$4 billion-worth of aid from America and another \$1 billion from Jews abroad.

The main cause of Israel's dependence on overseas transfers is its defence spending. This devours 25% of GNP, and defence imports (\$1.8 billion in 1985) account for more than a fifth of total imports. If defence imports are excluded, along with debt-interest payments, Israel's trade in goods and services was close to balance last year, compared with a deficit of \$2.7 billion in 1983.

The improvement in the civilian trade balance is mainly due to strong growth in industrial—especially high-tech—exports, which jumped 30% in volume in the two years 1984 and 1985. Industrial goods now account for 72% of Israel's total exports, compared with 54% in 1970. The share of agricultural exports fell from 18% to 8% over the same period, while diamonds held on to a fairly steady 20-25%.

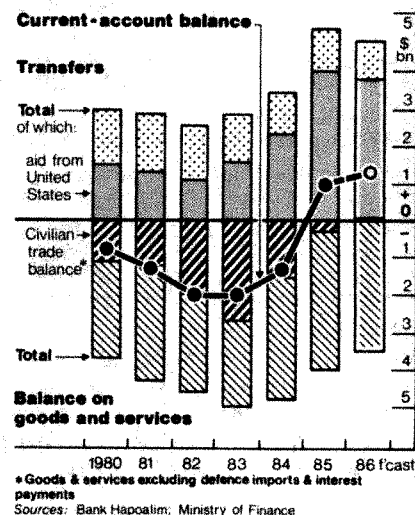
In 1987, when the \$750m in emergency aid from America will be cut off, the overall current account should remain in surplus. However, America will still have to sign a cheque for more than \$3 billion of aid. Of that \$3 billion, military aid will account for about \$2 billion—roughly matching Israel's defence imports.

There are at least two reasons why America is unlikely to cut off this mili-

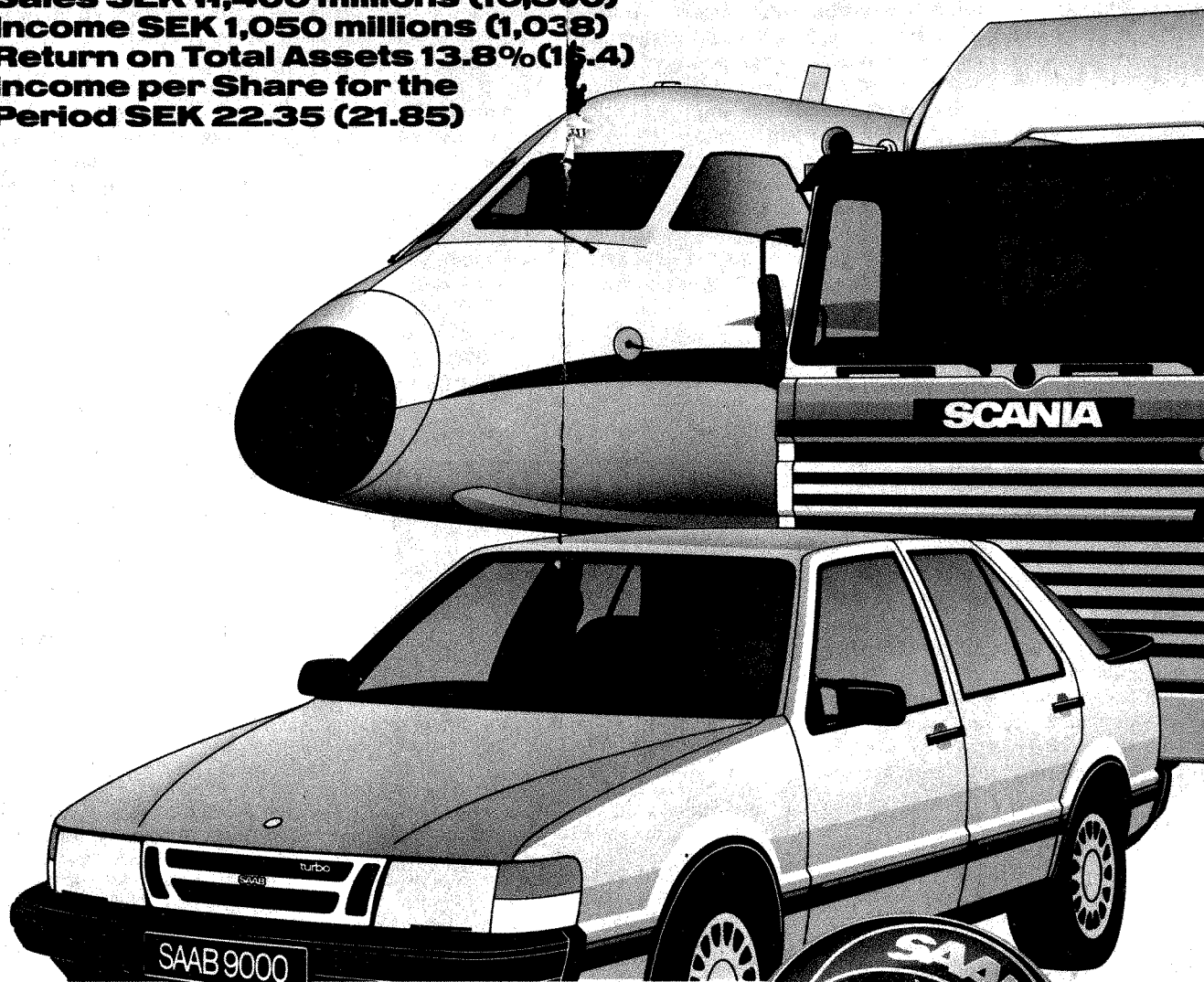
tary aid in the foreseeable future. First, Israel is of strategic importance to America in the Middle East, and America probably reckons it gets value for its money in supporting this ally: it gets a mighty military machine without having to provide the servicemen itself or to risk American lives. Second, the strong Jewish-American lobby would make it hard for the United States to abandon Israel militarily.

The net flows of civilian aid from America to Israel are not as great as the remaining figure of \$1 billion of American aid suggests. Emergency aid aside, which will not be repeated in 1987 and which Israel can do without, all of this money is paid back to the United States to service earlier loans made to Israel.

In the longer term, Israel's best hope of doing without this help in servicing its American debts lies in boosting its industrial exports. Last year, it signed a free-trade agreement with America. When fully implemented Israel will be the only country in the world with duty-free access to both America and the EEC.



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- * Return on Total Assets 13.8% (16.4)
- * Income per Share for the Period SEK 22.35 (21.85)



Extract from the Interim Report January – April 1986

Sales and Earnings: Consolidated sales for the first four months amounted to SEK 11,422 m. (10,257), an increase of 11 percent compared with the corresponding period last year. Foreign market sales increased by 14 percent to SEK 7,328 m (6,411), accounting for 64 percent (63) of total sales. Exports from Sweden increased by 28 percent to SEK 5,807 m. (4,528).

Order bookings amounted to SEK 10,450 m. (10,280). The consolidated order backlog was SEK 20,470 m (18,890).

Income after financial income and expenses amounted to SEK 1,050 m. (1,038) corresponding to 9.2 percent (10.1) of total sales.

Income per share (after 50 percent taxes) for the period amounted to SEK 22.35 (21.85), partly due to a favorable development of associated companies' earnings.

Pre-tax return on total assets for the last twelve month period amounted to 13.8 percent (16.4). Considering the fact that the Swedish rate of inflation has decreased by three percentage-points to 4.6 percent, the real return on total assets for the Group increased during the period. The pre-tax return on total assets, non-interest-bearing liabilities excluded, was 19.7 percent (23.5).

Capital Expenditures: Capital expenditures for property, plant and equipment amounted to SEK 593 m. (534). The two automotive divisions accounted for SEK 481 m. (443).

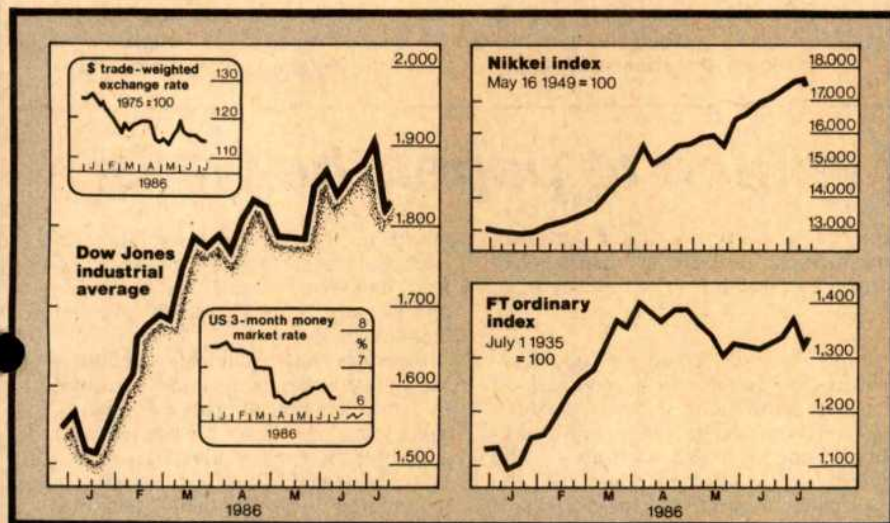
Forecast: At the Annual General Meeting on April 21, 1986, it was mentioned that earnings for 1986 were expected to be at least at the same level as in 1985. This forecast is still valid.

The interim report covering the period January to August 1986 will be issued on October 16, 1986.

For further information please write to: Saab-Scania AB,
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FINANCE



Stockmarkets stumble as bears turn on the bulls

LONDON, NEW YORK AND TOKYO

Suddenly investors are worrying about recession, and Wall Street's, as usual, worried first. They came back from the long July 4th weekend to sell down their portfolios. The Dow Jones industrial average, which had reached an all-time peak on July 2nd of 1909.03, fell 88.30 points, or 4.6%, in the next three trading days before steadying on July 9th. London, as usual, followed suit. Even Tokyo stopped celebrating its governing party's election landslide and got the mopes.

Is the four-year world bull market coming to an end, or just showing signs of a healthy and temporary correction? With fingers crossed for an early interest-rate cut in Tokyo and Washington, most investors still believe the latter.

Brokers cited specific reasons for Wall Street's nasty turn. Against expectations, the Federal Reserve failed to cut the discount rate from 6.5% on July 3rd. Sudden sell signals from a few widely-followed investment gurus were obeyed. Others are getting nervous, too, as predicted big rises in American corporate profits do not show up.

Mr John Mendelson, a technical analyst at the Wall Street firm of Dean Witter Reynolds, was the guru with the most to answer for. On July 7th, he announced the end of the "second leg" of the bull market which began in August 1982—and

told everybody to sell. It proved the excuse a lot of investors were looking for.

Mr Mendelson, who had been bullish a week earlier, gave a heap of reasons for his change of view. Among executives trading their own companies' shares, sellers of blue chips were outnumbering buyers by five to one. The record number of initial public stock offers now scheduled will flood the market. He reckons share prices will fall by 15-20% in all.

Even Mr Mendelson, however, speaks of a "third leg" for the bull market, not a crash. A vast, though diminishing, majority on Wall Street thinks investors are still in buying mood. On their view, recent selling was just a bout of profit-taking of the kind that any long-running bull market provokes; significantly, it was heaviest in the shares that had performed best recently. Certainly, the market was due for a correction. The Dow has climbed 611 points, or 47%, since last September and 75% in the past two years.

The long-term bulls expect price-earnings ratios to move up from today's 18 to over 20—their level in the go-go years of the 1960s. Now that financial assets have come back into fashion, the stockmarket is still making up ground lost during the inflationary 1970s. In the shorter term, bulls predict that the Dow will move past 2000 on the expectation of faster econom-

ic growth and expanding corporate profits in the second half of this year. All this despite the fact that the Dow Jones industrial average has not moved up for five consecutive years since 1910.

The real problem for the bulls—and the motive of the bears—is that the economy has failed, so far, to respond to the four stimuli which caused analysts early in the year to raise corporate earnings estimates: falling oil prices, falling interest rates, a falling dollar and strong monetary growth. London-based Chase Manhattan Securities plagiarises Marx to good effect: "A spectre is haunting the world economy: the spectre of deflation." The talk over Wall Street's Perrier-and-lime is all about where disinflation (good) turns into deflation (bad). If fears that it might be even half right, investors would be wise to dump equities wholesale for bonds.

All this is increasing pressure for another co-ordinated cut in international interest rates. As the dollar plunges through the Y160 barrier, the Japanese are being asked to lead by lowering their discount rate (now 3.5%) for the fourth time this year. They will probably oblige.

Money has been flooding into Tokyo's stockmarket this year. The Nikkei index has risen 36%, or 69% in dollar terms, since January. Mr Nakasone's successful election on July 6th put a further 136 points on the index before Tokyo succumbed to New York's fall. On July 9th, the Nikkei fell 228 points, by 1.3%.

Despite its jitters, Tokyo prices remain



Down the Dow

head. The average price-earnings ratio is over 45, compared with 30 in January. Boosted by rumours that the Japanese will be persuaded to reflate their economy, domestic stocks have made the running while the traditional blue-chip export stocks have been limping behind. All paused, though, on July 9th, after some rather unhappy talk from Mr Nakasone about an austerity budget in the coming year.

London fell 2.9% in response to Wall Street's woes and worrying money figures, before rallying on July 9th. London's shares trade on a modest price-earnings ratio of 14, and share prices should be less likely to fall out of bed every time some guru gets that sinking feeling. Commented one bored London broker this week: "We are relying on the rest of the world to make the market go up." Over to you, America and Japan.

British Telecom

Shareholders suffer

British Telecom's 1.6m private-sector shareholders were unamused this week when a plunge in its share price knocked more than £1 billion off the market value of their company in a single day. The fall—the biggest since BT was floated 19

Americans get an itch to paper the walls

Commercial mortgages are the latest kind of property finance in America to be "securitised". Developers and institutional lenders are both keen. Investors, although not forgetting the property disasters of a decade ago, are beginning to see the point

Mortgages on commercial properties are joining home loans as tradeable securities in America's capital markets. Some \$10 billion of bonds backed by commercial mortgages were sold in 1985, bringing the total outstanding to \$15 billion. Salomon Brothers, which arranges more of the issues than anybody else, reckons that by 1988 about \$40 billion-45 billion of securities based on new commercial mortgages will be launched each year.

There is room for more. Loans on non-agricultural commercial property in America top \$630 billion. That looks enough to create a rival to the municipal and corporate bond markets, and to make even the \$350-billion market in securities backed by residential mortgages look over its shoulder (see chart).

Both developers and lenders—customarily banks and insurance companies—want to broaden potential sources of finance for commercial property. An office block can cost several hundred million dollars, so developers often have trouble turning up an institution willing to finance it alone. Borrowing in the capital markets is typically ¼% to ¾% cheaper, too, than borrowing from insti-

tutions. Insurance companies regard securitisation as an easy way to sell off existing loans and rejig the balance between assets and liabilities. All institutions hope to make a profit on the interest-rate difference between the mortgages they create and the bonds they sell.

Structuring the deals is tricky. Issuers want a way to escape if a mortgage goes bad, but buyers want solid guarantees. The latest big commercial-mortgage bond—a \$485m Eurobond launched in May by Olympia & York, a property-to-energy group—is typical of the way new single mortgages are securitised. The bonds were issued by a specially-created company whose only asset is the property. Apart from this company, investors have no recourse to the developer. Standard & Poor's rated the bonds AA because it reckoned the property was worth at least 1½-times the mortgage. Insurance protects investors against default.

It is even harder to securitise existing mortgages, because rating agencies hate to assess pools of loans. When Prudential bundled up \$1.3 billion of old mortgages into a Eurobond last autumn, it had to give investors the right to get redress from the insurance company itself if things went wrong.

Property-minded institutions and developers are finding a new interest in equities, too. American insurance companies, slower than the British to move from merely financing property deals to taking stakes in them, have begun to see the attractions of capital gains. Some are turning to real estate investment trusts (REITs) for liquid, diversified equity investment. Though many collapsed in the mid-1970s, new REITs with assets totalling \$5 billion were launched in 1985 alone. Newer techniques for parcelling out equity include "master limited partnerships" with shares that are traded, like those of REITs, in the stockmarket.

Equitable Life, for instance, has a \$20 billion property portfolio—half of it in buildings it owns outright and half in

mortgages. Equitable will soon have repackaged more than \$1 billion of its loans into securities and plans to convert one property into a REIT or a master limited partnership.

Investors' understandable caution is the biggest brake on the rapid securitisation of commercial-property finance. Commercial mortgages are not federally guaranteed like many private residential ones. Rents and prices have collapsed in several notoriously-overbuilt cities. Few investors are as used to judging real-estate income flows as they are corporate

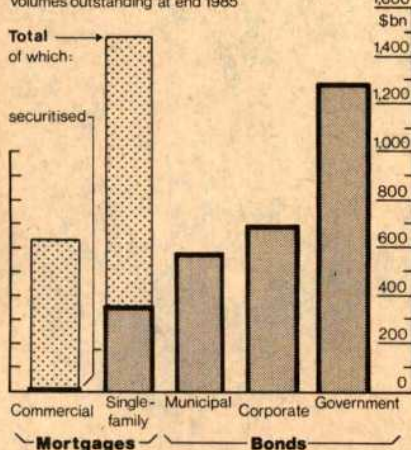


Securitising skyscrapers

balance sheets—one reason why AA-rated commercial mortgage-backed bonds generally trade at a premium of at least ¼% to AA-rated corporate bonds. Many REITs' shares sell at a discount to their offer price.

A row over Rockefeller Centre has not helped investor confidence. The Rockefeller Group raised \$1.3 billion last year through a complex, unrated stock-and-Eurobond issue secured on its famous chunk of mid-Manhattan. Now NBC, one of its biggest tenants, says it may move out. This has raised some doubts about whether Rockefeller Center Properties Inc, the company that issued the securities, will be able to meet its obligations. Several investors are suing Goldman Sachs and Shearson Lehman Brothers, the investment banks that lead-managed the deal, alleging that their valuation of the centre at \$1.6 billion was too rosy.

United States financial markets
Volumes outstanding at end 1985



Source: Salomon Brothers

months ago—was prompted by a statement from Britain's Labour party suggesting that it plans to renationalise BT if it wins the next election. Since BT accounts for 4% of the FT All-Share Index and 6% of the FT-SE 100, the drop in its share price helped further to depress a market that was sliding anyway. BT shares rallied slightly to close at 204p on July 9th. At that level, they are still more than a quarter below their 1986 peak.

There may be worse to come as the implications of two other developments sink in. On June 25th, Oftel, the body that regulates telecommunications hinted that it is considering applying for a stricter formula to govern BT's price increases, perhaps tying them to a return on capital rather lower than the 19% the company makes now. (Though it played down the idea on July 9th, investors are still uneasy.) Then, on July 8th, the European Court of Human Rights resolved a long and bitterly argued dispute by rejecting claims for more compensation by former private shareholders of shipbuilding and aircraft companies that were nationalised in 1977 by a Labour government. Disappointed claimants are urging BT shareholders to sell now, to avoid a similar fate. Some will do so.

There is one brake on further sales, however. Investors who chose extra BT shares rather than a few quid off their telephone bills when they bought Telecom in the first place are locked into their shareholdings until 1987. They may be less keen to choose that form of bonus gain when state-owned British Gas comes to the market later this year. Foreigners, reminded that renationalisation remains a possibility in Britain, may stay away from the issue altogether.

Peru

in the ring with its creditors

LIMA

Peru is defending its title of the world's hardest-to-handle debtor country. It refuses to repay in full what it owes the IMF and is devising some novel proposals that seem sure to make its commercial-bank creditors even more unhappy.

The deputy minister of the economy, Mr Gustavo Saberbein, says that Peru will not pay the IMF all the \$180m it owes by August 15th. It will make a partial payment instead and "hope the Fund will understand". Some officials put the payment as high as \$50m.

For the third time this year, Peru runs the risk of being declared ineligible by the Fund for further borrowing. It narrowly

escaped being put on the IMF's black list in April by paying \$30m of the \$75m it owed, and in May by promising to clear all arrears by mid-August. The IMF board might now decide that its patience is exhausted. Unlike some countries that have fallen behind, Peru has well over \$1 billion in reserves. The Fund is disinclined to create a precedent.

Peru's commercial-bank creditors are even crosser. The country owes them interest of at least \$450m on \$6 billion of its \$14 billion in total external debt. Peru was supposed to sit down with its big bank creditors at the beginning of June. It has yet to do so. That is partly because the government's medium-term economic plan and long-term projections have failed to emerge from the computer rooms. The numbers are still being revised to reflect low oil and mineral prices, which are expected to cut Peru's exports in 1986 by \$500m to about \$2.1 billion. Creditors, who have had little joy from Peru for two years, say that the planners are simply stalling once again.

Peru is likely to put three proposals to the banks when it does meet them, Mr Saberbein says. The first is standard



Working for the Yanqui dollar

third-world negotiating fare: repayment stretched out over more than 20 years, with interest at about 3% and a grace period of at least five years. The other two are not. Peru wants to discount its debt to its value on the secondary market, where it is trading at about 20% of its face value. Peru would repay the discounted debt either in local currency, which creditors could then use to invest in export industries there, or through counter-trade. Either method would effectively cut a \$6 billion debt to \$1.2 billion.

Peruvian ministers say that the banks should be willing to negotiate on the basis of secondary-market values, because this way "they will get something for their loans". The bankers' response may be irate and steamy. No real negotiations are

likely to take place until after the IMF's decision in mid-August.

Peru's negotiating team may not even go to New York until July 28th, when President Alan Garcia will speak on the first anniversary of his coming to power. And that could prove an inauspicious moment for chummy chats with bankers. Mr Garcia has indicated that he will announce whether he will continue his stated policy of limiting foreign debt payments to 10% of Peru's export income. Observers in Lima reckon he may lower the percentage.

Swiss banks

Habeas corpus but hang on to the cash

LAUSANNE

Swiss bankers are holding their heads high again. Their reputation for keeping other people's secrets—and their money—was damaged this spring when the Swiss government made them tot up the Marcos millions in their vaults. On July 2nd, however, Switzerland's high court threw out a request from the Italian government to hand over SFr120m (\$68m) held in Swiss banks by Mr Licio Gelli, a defendant in the Banco Ambrosiano case. Yet the Swiss are perfectly prepared to hand over Mr Gelli himself.

Not that they are likely to get the chance: Mr Gelli has flown the coop. Mr Gelli, the master of the *Propaganda Due* (P-2) masonic lodge entwined with the Banco Ambrosiano and its erstwhile boss, Roberto Calvi, was arrested in Geneva in September 1982 when he attempted to withdraw valuables from a bank safe. In August 1983, he escaped from prison and is now believed to be in Paraguay. From there, he has tried, successfully, to stop the release of his money to the Italians.

Mr Gelli is accused in Italy of acts including fraud and extortion that are crimes in Switzerland, too. Neither Ticino's prosecuting attorney, who is investigating the Swiss ramifications of the Banco Ambrosiano mess, nor any other Swiss authority would have serious qualms about extraditing Mr Gelli, if they had him. Italy argues that if Mr Gelli's alleged acts make him extraditable, the money he made from them is extraditable, too. The prosecuting attorney had blocked Mr Gelli's Swiss bank accounts in 1983 to stop him from collaring the cash. The federal police later consented to transfer the money to the Italian authorities. The high court this month said that they could not.

People can be extradited in order to



Switzerland keeps its secrets

stand trial and hence before they are found guilty, the court said. Money is turned over only after it is proved to be the result of dirty dealings. So far, Swiss judges have been convinced that only \$8.5m in one account is definitely dirty. That bit will be released to the Italians.

Mr Gelli's lawyers are not crowing too loudly. Italy has other international legal tactics up its sleeve. And even if Mr Gelli manages to stop the money in his blocked accounts going to Italy, he may never again set eyes on it himself.

Corporate debt

Why treasurers swap

PARIS

Profits from one activity over the past three years at Gaz de France (GDF), the French state-owned gas company, have just topped FF1 billion (\$143m). These profits have not been made by installing new gas fires in Parisian homes nor by discovering new gas fields in Bordeaux. They have been made, instead, in swaps.

Swaps (together with other state-of-the-art financing techniques involving futures and options) allow companies to manage their debts actively. A company can, for example, shift its debt from floating-rate to fixed, or from dollars to yen. This enables the company to match its debts with its assets: ie, if a company starts making more profits in dollars it may want to have its debts in dollars. For a good debt manager like Mr Jean Reboul, treasurer of GDF, playing with swaps can also mean raising profits.

Three years ago, GDF decided to reduce its dollar debt by swapping into European currencies. Mr Reboul correctly foresaw that the dollar would rise. The soaring dollar in 1984 and 1985 meant that GDF's swaps out of the dollar became profitable, because swaps—like securities—have a value in the secondary market.

Sounds complicated? This is how one of Mr Reboul's currency swaps worked. In March 1984, he swapped \$44m of 13½% debt for 50m of European currency units (ecus) at 11% at an exchange rate of \$1 to 1.1375 ecus. In eight years' time, GDF was to pay its swapper 50m ecus and receive \$44m. These payments would redeem each company's original bond issues from which the debts derived. For the life of the swap each would meet the other's interest payments. Thus, while each could service its underlying debts, both companies had effectively switched out of those debts for eight years.

Six months later, the dollar had risen against the ecu. This was good for GDF. The ecu was worth less in dollar terms, so the size of GDF's debt was reduced. If the exchange rate at that time of \$1 to 1.275 ecus stayed the same until the swap expired, GDF could buy the 50m ecus for less than \$44m; its swapper would need more than 50m ecus to buy \$44m. However, Mr Reboul reckoned that the dollar might not stay above the exchange rate fixed into the swap for long, so he decided to cash in the swap's profit. He was able to do this because banks provide a secondary market in swaps. Mr Reboul sold—ie, he reverted to the original debt structure—for a cash payment (effective—ly a profit) of \$1.4m.

In 1985, Mr Reboul continued to swap out of the dollar and then to sell later in the secondary market. By doing this he netted tens of millions of dollars in profit. His powers of foresight were not infallible, however. In the autumn of 1985 he made further swaps out of the dollar, believing it would climb back to its early 1985 peak. The dollar, alas for him, continued to fall. After three months, Mr Reboul decided to cut his losses and take out short-term cover against the dollar falling further. He bought options to sell

the dollar at exchange rates of FF7.25-7.50 to the dollar.

Another good move. The dollar is now below FF7. These contracts are profitable and mostly compensate for the losses incurred on the swaps out of the dollar. If Mr Reboul believes the dollar is about to move up again, he can cash in the options and then benefit from the swaps if the dollar does rise.

Not all companies like playing with swaps, or active debt management of any kind. Treasurers, some argue, are unlikely to predict interest-rate and currency movements correctly more than half the time. Companies take enough risks in their main businesses without taking on additional financial risks. But to the likes of Mr Reboul—and their number is fast increasing—the advantages seem obvious. Hanging on to one form of debt—like buying a bond and holding it whatever happens to the price. Swapping debts in today's volatile markets is no more speculative than leaving them alone.

Canadian securities firms

Fighting back

TORONTO

Canada's securities houses are feeling edgy as they head for a less explosive version of London's Big Bang. Foreigners will soon be allowed to own up to 30% of a Canadian securities firm—or set up business in Toronto as “foreign securities dealers”—if the provincial government of Ontario implements new rules planned for early next year. The province's minister for financial institutions, Mr Monte Kwinter, calls the proposals a compromise “to ensure the growth of Toronto as a major centre of international finance while maintaining the essentially Canadian character of the securities industry”. Foreign capital will be limited to 30% of the industry's total, with no foreign-controlled firm allowed more than 1.5%.

Investment dealers—as Canada's securities firms are known—act as stockbrokers, bond dealers and investment bankers. They have a monopoly on domestic corporate underwriting. A handful of them welcome Ontario's moves towards deregulation—which the financial markets in Montreal and Vancouver are likely to imitate—as a chance to broaden their own horizons.

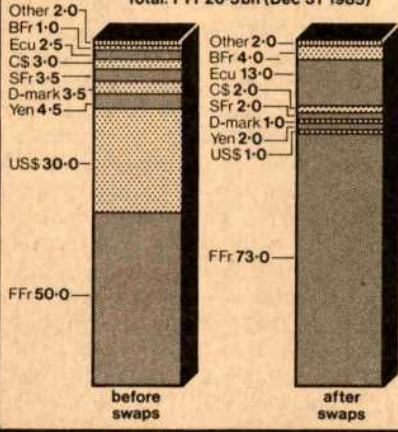
Gordon Capital Corporation, a fast-growing firm whose pioneering ways have often stirred up Toronto's sedate investment community, is one. Two years ago, Gordon tried to set up a joint venture with Belgium's Groupe Bruxelles Lambert. The Ontario Securities Commission said no, but the attempt led directly to the

Swapping it all back home

Gaz de France

Currency composition of debt, %

Total: FFr 26.5bn (Dec 31 1985)



proposed rule changes. Another fan of more foreign competition is McLeod Young Weir, of which America's Shearson Lehman Brothers owns 10% (the most which foreigners may now hold).

McLeod Young Weir is one of the few Canadian firms to have established a solid presence outside the country. Most others fear they will be swamped by foreign competitors. Dominion Securities Pitfield, the biggest Canadian dealer with capital of C\$130m (US\$94m), is tiny next to the American and Japanese securities houses. Most Canadian corporations already prefer foreign underwriters to manage their international borrowings. Goldman Sachs has just set up shop in Toronto. Nikko and Nomura Securities are among the Japanese firms that have opened representative offices.

Some Canadian dealers are raising extra capital to meet the challenge. Nesbitt Thomson, the sixth largest, is making a C\$80m public share offering. Another four have taken advantage of high share prices in the past two months to go public. Others are trying to forge new alliances.

Wood Gundy, the most active Canadian firm in the Euromarkets, stunned competitors in June by announcing a merger with maverick Gordon Capital that would have created a company with capital of C\$250m. The deal was called off on June 30th. Wood Gundy's more conservative employees were worried about a clash of cultures and the prospect of lay-offs. Wood Gundy, whose domestic business badly needs a boost, is now exploring other avenues, including another link or a public share issue.

Hovering in the background are the big Canadian banks. Institutions like Royal Bank of Canada and Canadian Imperial Bank of Commerce want domestic underwriting powers to strengthen the international merchant banking they now do through London-based subsidiaries. Ontario's provincial government has pleased them by proposing that they be permitted a bigger stake in securities firms than the foreigners' 30%. But Mr Kwinter has yet to persuade the federal government, which regulates the banks, that such a concession is desirable for institutions that already control 85% of the assets of the financial services sector.

Taiwan

Banking on change

TAIPEI

Taiwan's banks are being catapulted into the twentieth century by—of all things—the falling American dollar. Taiwan has even larger foreign-exchange reserves than Japan—\$31 billion at the end of 1985



Anything but American dollars, please

and likely to top \$35 billion by the end of 1986—and has kept them exclusively in dollars. As a result, the purchasing power of the island's reserves is 10% lower than if it had held them in a trade-weighted basket of currencies during the first six months of this year. In their rush to diversify reserves now, officials are pushing ahead with their liberalisation of Taiwan's financial system.

Foreign banks, especially, are hustling to promote various investment packages to Taiwan's traditionally conservative central bankers. A handful of domestic banks have been permitted to operate trust funds to invest in overseas securities. The banks take public deposits in New Taiwanese dollars, and then convert them into foreign exchange for the purpose. Official guidelines for these investments are still narrow, allowing only American treasury bills, AAA-rated corporate bonds and fixed-rate certificates of deposit. In their unofficial interpretation of the guidelines, however, central bankers seem more lenient.

A recent package of proposed reforms includes privatisation of some of Taiwan's domestic banks (almost all of which are now controlled by the government); more and better development finance; and tighter supervision of the island's credit co-operatives and trust companies. Taiwan's premier, Mr Yu Kuo-hua, formerly head of the central bank and still the main voice on monetary control, would prefer to move very slowly. But events over the past 18 months have underlined the weakness of Taiwan's financial sector and the need for change.

Early last year, the troubles of Taiwan's second-largest conglomerate, the Cathay banking and industrial group, led to the resignation of two government ministers, and the conviction on charges of fraud of one Cathay executive, a well known politician. People became aware

of primitive and widespread financial practices, including post-dated cheques, borrowing in employees' names without their permission and keeping fraudulent accounts. Some things have improved since then, bankers say, but they are losing money anyway.

The Cathay crisis triggered the collapse of dozens of smaller companies, wrecking the already-doubtful loan portfolios of most of the banks. Foreign banks are thought to have lost a total of at least \$500m-600m in bad debts since 1982. In the year to June 30th, many leading Taiwanese banks say they made a loss for the first time.

In the aftermath, most foreign bankers have pruned their portfolios drastically. There is not enough high-quality lending business, however, to support 32 foreign banks. Even though the government is about to increase the amount of New Taiwanese dollar loans that foreign banks can make, many are shifting their focus to trade financing, corporate promissory notes—and earning fees by advising and carrying out foreign investment.

Taiwan's government is about to let many foreign banks open second branches in Kaohsiung, but other activities will be slow to increase. Taiwan's businessmen are reluctant to make or raise capital for long-term investments. The securities market is still thin, there is no domestic bond market and foreign-exchange controls rule out any market for swap management. Meanwhile, the "unofficial" lending network of trust and credit companies flourishes.

Several foreign banks have reduced their staff in Taiwan, in the face of limited opportunities and cutbacks at home. Most are staying, however, in one form or another—convinced by the government's promise that liberalisation is imminent. As one banker said: "It is tough to leave a town that is sitting on a pot of gold."

COMPANY BRIEF

Club Méd: the bourgeois holiday camp

Beautiful people playing all sorts of sports; white-sand beaches; azure sky and sea; Polynesian-thatched huts; free and flowing wine at meals; simple yet superb food. The holiday dreams offered by France's Club Méditerranée are an up-market world away from the "fish 'n chips" image of many packaged holidays. They are also a formula for commercial success. Club Méd is Europe's largest tour operator.

The challenge is to stop the formula from becoming stale, and to stop competitors from invading Club Méd's market. The year to October 31 1985 saw a rise in net profit of only 8.3% to FF266.6m (\$28.5m) on revenues that increased by 17.3% to nearly FF6 billion. This represented a rise in earnings per share of a mere 0.8%—a decline in real terms in a period when consumer prices in France rose 5%. Several explanations can be proffered: a 24% increase in "depreciation and amortisation" (to FF193m from FF152m); a rights issue in May 1985; and a change to translating currencies according to the average for the four seasons, rather than—as before—at the close of the financial year. But the fact remains that Club Méd underperformed a booming Paris bourse, and has seen its ranking in stockmarket capitalisation drop from 16th in May last year to 28th today. Although the latest half-year, to April, saw a 22% rise in profits (which would have been greater still if the dollar had not weakened), the 1985 results stand as a warning against complacency.

Answering the challenge

means repackaging the holidays offered to fit in with changing tastes and then selling them to a market which lies increasingly outside the Francophone world. It does not mean changing the essence of the Club Méd concept. Boosted by the latest half-year results, Club Méd is justifiably wary of tampering with what remains a successful formula.

Club Méd was founded in 1950 by an Antwerp diamond-cutter called Mr Gérard Blitz (he is now its *président d'honneur*), who set up a "village" in Majorca. But the company's success is really due to Mr Gilbert Trigano, a French Jew who fought in the Resistance, then became a journalist for the Communist paper *L'Humanité*, and is now Club Méd's chairman.

The original Club Méd was a non-profit organisation which bought surplus American Army tents from Mr Trigano and his father. Mr Trigano joined as managing director in 1954 and set about turning the company into a profit-making business. Starting in 1955 with a special Club "village" in Greece, Club Méd has grown under Mr Trigano into an organisation which operates 104 villages (and three "auxiliary" ones), 63 holiday residences (time sharing) and six hotels. These are located in France and some 30 foreign countries or French overseas territories.

The Club Méd concept is an organised mélange of hedonism and "back to nature". Guests are referred to as "GMS", meaning *gentils membres* or "nice people"; the villages are run by "GOS", *gentils organisateurs* or

"nice organisers". The GOS—each village has around 100 of them, or one to every five guests—mix with the GMS, teach them sports and present entertainment each night after dinner. The GMS pay one charge in advance for their holiday, which includes not just the room but all air fares, transfers from airport, meals (with free wine and beer) and sports. That means that on arrival there is almost no need to carry money, traveller's cheques or credit cards (a tricky business given the village uniform of minimal swimming gear). Instead, to cope with any extras—like drinks at the bar or excursions out of the village—GMS wear prepaid necklaces of beads, with the beads used as currency.

All this may seem somewhat precious "big brottering" to non-GMS, but the GMS themselves—893,300 last year—say that the absence of money and everyday clothing eliminates differences of class and wealth; and that the range of activities, all of them included in the holiday price, is so wide that boredom is never a danger. Mr Trigano, who maintains his left-wing views, might claim to have created in his villages a vigorous social equality.

The formula is also commercially shrewd. The guests earn above-average incomes and pay above-average prices to a company whose costs are kept under tight control. At Club Med Inc, the American subsidiary that handles all the villages outside Europe, Africa and Brazil, the calculation last year was that half of the guests had annual incomes of more than \$50,000, and 38% had postgraduate degrees.

The Club also enjoys some significant operating advantages.

● Its GOS—each village will have GOS of some 15 different nationalities—are young and enthusiastic enough to accept low wages and long hours for a career which will last for only two to three

years.

● It flies so many GMS to and from their holidays that it can negotiate large discounts on air charters.

● Most villages are leased, rather than owned, by the Club. This reduces any political risk to the Club, making it easier to quit if need be (Club Méd pulled out of Algeria because the government there was not "flexible"). It also keeps debt off the balance sheet under French accounting rules.

The company makes good use of its local muscle in negotiating with governments as well as with its suppliers. A Club Méd village normally employs 200-300 locals. As a matter of policy, local purchasing is preferred to imports even if imports are cheaper. Also the GMS, despite the bead necklaces, tend to spend money on the side the villages.

In developing countries, this kind of wealth creation gives Club Méd real bargaining power on matters like work permits for its foreign GOS and on the provision of roads, sewerage and other services. The British government gave Club Méd an extended tax holiday and used its aid budget to build a special airport in order to lure the company to the Turks and Caicos Islands, a British dependency in the Caribbean.

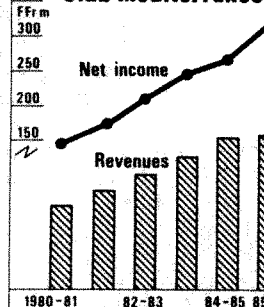
A future outside France

The English-speaking Caribbean is part of a Club Méd strategy that is based on a paradox: the strength of the Club is its popularity in France, which provides two-fifths of its GMS, but this very dependence on one market is a potential weakness. The French clientele is getting older—single people have become couples, who have become families—and the risk is that it will not replace itself. Although the number of French GMS is still increasing each year (seven Frenchmen in every 1,000

A stake in the sun

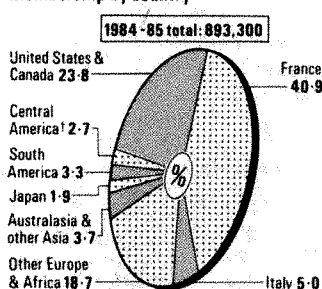
All years end October 31st

Club Méditerranée

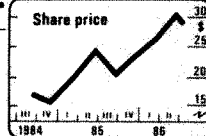
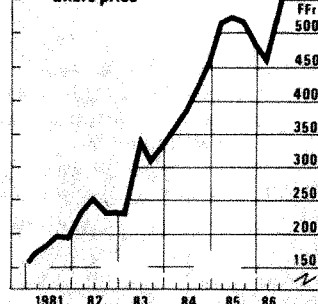


Source: Annual reports; Datastream

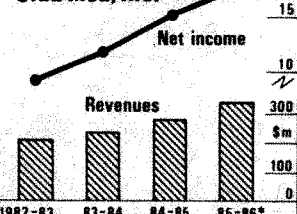
Membership by country



Share price



Club Med, Inc.



* First half adjusted for annual rate. † Including Polynesia

are likely to go to a Club Méd village each year), further growth is likely to prove limited.

The obvious answer—which the Club is pursuing—is to go international. But just because it is obvious does not mean it is easy: potential GMs are often put off by the French accent of the Club. Speaking no French in an enclosed and Francophone village is hardly the best recipe for a relaxed holiday. Although the number of British GMs rose by 48% last year, the total was a mere 10,800, compared with France's 365,200.

The Club is tackling the problem. In Europe, the "international village" scheme has begun this year: 18 villages have been established where the dominant language is English and where the proportion of French GMs is limited to 25%. Outside Europe, there are another 14 villages specifically tailored to an English-speaking market.

The logic is straightforward: if the Club Méd concept appeals to the French, it will also appeal to other nationalities once language barriers are removed. Since those other nationalities include the rich—and numerous—North Americans and Japanese, the company hopes growth in turnover and profits is assured.

The hope has some statistical support. In 1985, 212,500 Americans and Canadians took Club Méd holidays, accounting for 23.8% of all GMs and making them the largest group after the French. But they amounted to less than 0.1% of the North American population. The popularity of Club Méd is also growing with the Japanese, but here, too, there is a long way to go: 17,200 Japanese visited Club villages last year, only 1.9% of all GMs and just 0.014% of the Japanese population. Drexel Burnham Lambert, an American investment bank, calculates that North American custom could grow by more than 300% and Japanese custom by over 2,300%. Add the figures together, and today's level of almost 900,000 GMs becomes about 2.3m.

That implies a world market able to support in excess of 250 Club Méd villages. By Drexel Burnham's calculation (and Club Méd does not argue) the North Americans and the Japanese will account for 60% of Club Méd's growth, so most of the extra villages will have to be sited within reasonable reach of those customers. That, in turn, means the Caribbean, South-East Asia and the Pacific—all of them territories controlled by the American

subsidiary, Club Med Inc.

Club Med Inc, registered in Grand Cayman Island and listed on the New York Stock Exchange, was set up in May 1984. The subsidiary makes sense for two reasons: to be close to the market of the future; and to have some dollar equity to balance the dollar portion (around half) of the parent's debt.

The vice-chairman of Club Med Inc is Mr Serge Trigano, son of Gilbert and heir apparent to the Club Méd empire. Originally the subsidiary was wholly-owned by the French parent, but now some 27% of its shares are held by the public. Having begun with 19 villages, Club Med Inc is expanding at the rate of two or

Club Méd in 1976 bought 45% of Italy's Valtur Servizi (now Valtur Vacanze), which manages 14 villages in Greece, Italy, the Ivory Coast, the Maldives and Tunisia. Perhaps because Valtur is close to the Club Méd concept, it has been one of Club Méd's more successful diversifications: turnover rose by 22% to 81.7 billion lire (\$54.6m) last year and profits in lire—helped by tax incentives under Italy's regional development policies—by 120%, but the increase was more modest when translated into the harder French franc.

In contrast, the Club's Paris hotel in Neuilly saw its profits fall by 27% to FFr2.4m; and the time-share operation, Clubhotel-

filled day of the traditional Club.

The Japanese need an excuse

Extra sports activities are simply variations on the familiar Club Méd theme. Management no longer considers them enough. Mr Serge Trigano says: "We have tried very hard to improve the product for the Japanese. It seems they need an alibi to go on holiday, so we offer them courses on how to use the computer, or speak French or English or whatever they want."

Offering that kind of product is one step down the road to going after corporate, as well as individual, business. Conventional hotel chains like Hilton or Trusthouse Forte already make good business by offering conference packages to companies; those same companies often reward staff by sending them on holiday, or to conferences which are excuses for holidays. Club Méd's management reasons that it can make money by offering conference or training packages in exotic locations—all provided within the Club Méd ambience.

It is an attractive idea because it overcomes a perennial problem of the holiday: people's holiday time is limited. The Club Méd empire has grown on the basis of a Europe where four or five weeks of holiday is the norm and where a week or more of public holiday can be added. The future for the company, however, depends on America and Japan. Many Americans have only a fortnight's holiday a year. The Japanese may get a mere six days' statutory holiday and about 12 days paid public holiday; many of them do not take all of their holiday entitlement anyway. Offer them a conference or course in a Club Méd village and they have an extra holiday.

Such tactics are not unique to Club Méd, and attempts by rivals to imitate the Club Méd formula should not be dismissed. But Club Méd will take some beating: it has its reputation and goodwill. (Club Med Inc reckons that last year, 35% of its GMs had been to a village before; 41% were there on the recommendation of friends; and more than 94% said they would like to return.) It has the marketing power of an organisation with a presence in Europe, Africa, the Americas, the Pacific and Asia (including China); and, by focusing on North America and Japan, it has identified a way to grow into the next century.



Will they keep coming?

three villages a year. Nor is the expansion linked only to the American market; the subsidiary also operates villages in the Pacific and South-East Asia geared to a clientele from Japan, Singapore and Australasia.

The fact that Club Méd's potential market is mainly outside Europe makes the child in some respects more important than the parent. The question is whether an American and Asian-dominated Club Med Inc will alter the Club's intrinsic appeal—and, if so, whether the change will be good or bad.

Management's policy is plain: Club Med Inc has to maintain a flavour which distinguishes its product from those of its competitors. The alternative is to lose customers. Francophone Britons, for example, have shunned Club Méd and taken holidays of a similar nature with England's Club Mark Warner. Imitation may be a sincere form of flattery—but it reduces revenues.

It was to check these rivals that

Maeva (an investment made in the 1970s) lost FFr24m thanks to a 30% drop in the sales of its time-share properties last year. Despite the mixed fortunes of its diversifications, the Club intends to open "tropical leisure" centres—that means sports complexes with hotels—near many of the world's bigger cities.

The Club has long protected itself against seasonality by having winter ski resorts to balance summer sun spots (the GMs can be switched from one to the other). A newer trend is to create uses for those resorts out of season. The Copper Mountain ski resort in Colorado now offers children's sports and adventure holidays in the summer; while the villages in the French and Swiss Alps offer summer mountaineering and riding as well as glacier skiing. Meanwhile, the maturing of the Club's clientele is reflected in the provision of special "Baby, Mini and Kids Clubs", in which parents can leave their children while they enjoy the activity-

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SCIENCE AND TECHNOLOGY

Snake poison need not kill

Snake bites are seldom regarded as a common industrial injury. They should be. In tropical Asia, snakes are allowed to infest rice and rubber plantations because they protect crops by killing rats. They also kill people. In Burma, the number killed by snakes each year is put at about 2,000. In Sri Lanka, snakes are more deadly than the Tamil guerrillas. Antidotes often fail to work, or cause damaging side-effects.

Since 1979, two British scientists—Doctors David and Mary Warrell—have collaborated with Thai scientists on pioneering research into the treatment of snake bites in the region. The husband-and-wife team went to Thailand to study malaria for Britain's Wellcome Trust. In August, they will return to Oxford University to develop genetically-engineered vaccines against snake venoms.

The Warrells think that the number of deaths from snake bites is widely underestimated, because of the high proportion of unreported bites treated by witch doctors. It is the Warrells who reckon that Russell vipers kill 2,000 people a year in Burma—official estimates are half as much. The Warrells also calculate that Russell vipers and kraits bite 60,000 people a year in Sri Lanka and that Death Adders and Taipans cause many deaths in Papua New Guinea.

Different snakes kill in different ways. Cobra and krait venoms generally attack the nervous system. By blocking the action of acetylcholine, a chemical responsible for transmitting signals between nerve fibres and muscles, the venom often leaves victims paralysed. It can kill by preventing breathing.

The venom of vipers usually kills by making blood clot. Vipers kill rats or mice by injecting a dose of enzymes that makes the blood coagulate within seconds. The dose is too small to kill people the same way, but a bite can result in the formation of small blood clots, which block up the arterial systems in their organs. As a result, some victims may die from kidney failure a week or so after being bitten. Others can suffer from spontaneous

bleeding as clotting agents gradually leave the bloodstream.

Bites are treated with anti-venom, made by immunising horses with small doses of venom extract. The horses' blood, which produces antibodies to the venom, is then collected and purified. But the anti-venom works only when victims are bitten by the same kind of snake from which the original venom was extracted. So anti-venom for Sri Lankan snake bites ought to be raised by using Sri Lankan snakes. In practice, Indian ones are used, often to little effect.

The intrepid Warrells have mapped the



Slippery customer

distribution of dangerous snakes in much of tropical Asia. They have studied Thailand extensively, and conducted surveys in Burma for three years in a row. They collected snakes in Sri Lanka last September, amid the shooting war between Tamil guerrillas and the government. Recently they made their first, preliminary survey in Papua New Guinea.

The Warrells' map could save lives. With it, victims of snake bites, who are seldom able to identify precisely the type of snake that bit them, could be given regionally-tailored cocktails of anti-venoms with a fair chance of working. Many of the antidotes currently in use fail because of ignorance about snake types. In Chantaburi, 200 miles outside Bangkok, the Warrells discovered that the Malayan krait—not, as had been thought, the banded krait—was responsible for many of the snake bites in the area. Yet victims were being treated with banded krait anti-venom.

Better anti-venoms cannot counteract

the acetylcholine blocker contained in the venom of cobras and kraits. The answer here may come from genetic engineering. Working with the Warrells, Dr David Theakston, from Liverpool's School of Tropical Medicine, recently produced monoclonal antibodies that appear to attack the venom of Thai cobras while it is attached to the junctions between nerve fibres and muscles. Trials may start soon with commercial snake handlers in Bangkok.

What about vaccines? Although Japanese scientists showed a decade ago that specially treated venom could serve as a vaccine, it was associated with severe side-effects. Since then, some scientists have become convinced that they can design bio-engineered vaccines based on the DNA recipes of the most damaging enzymes of the venom, but excluding the poisons responsible for side-effects.

Dr Kathryn Robson of the John Rad-

cliffe Hospital in Oxford is helping the Warrells develop such a vaccine. They send viper venom glands to her from Bangkok for cloning. With the right DNA recipe it should be possible to produce a harmless vaccine—perhaps an all-purpose vaccine that offers protection against a range of snakes.

Anti-venom work with horses suggests that boosters may be needed several times a year to keep a vaccine effective. This problem, too, is in the process of being overcome. At Liverpool's School of Tropical Medicine, Dr Theakston and Dr Roger New are incorporating venom in balls of cell membranes, called liposomes. Vaccines loaded into these liposomes appear to stay effective longer.

An effective vaccine could earn sizeable profits. So far, however, drug companies have shown little interest in the Warrell map. Making different cocktails of anti-venoms for different regions may be an obvious way to save lives; it is not an obvious way to make money.

Uranus

Ringed by mystery

In an otherwise dismal year for space, America has scored one triumph. In January, *Voyager-2* sailed past Uranus, beaming some 7,000 optical images and a mass of data back to earth. In the journal *Science*, 11 scientific teams have now disclosed what they learnt from experiments mounted during the flyby.

Voyager did not solve Uranus's biggest mystery: its lopsided position. The other planets spin around an axis that is perpendicular to the sun. Uranus alone lies on its side, with its axis pointing towards the sun. Uranus was probably heaved on to its side by a collision with a gigantic body—perhaps the size of the earth—but *Voyager's* visit leaves that question open. The encounter did, however, bump the number of rings up from nine to 11; and of moons from five to 15.

The *Voyager* data has helped scientists learn more about how planetary rings were born and why they survive. Uranus's are decidedly odd. The inner one appears to contain no particles smaller than boulders. That is a mystery. Frequent collisions between boulders should have smashed at least some of them into dust. There is plenty of dust around Saturn and Jupiter. When *Voyager* passed Saturn, it counted something like a million particles a centimetre wide for every boulder a metre wide. Another difference is that the Uranian rings are thin discs with sharp edges; Saturn's were thick and fuzzy.

Voyager scientists have come up with several explanations for the absence of dust. Both the rings and the newly discovered moons appear to be made of a dark material, perhaps because they are coated with organic compounds. Uranus contains large amounts of methane, as well as the water-ice which is thought to make up about half its mass. Together, these could generate hydrocarbons. Hydrocarbons are often sticky: they might encourage small particles to clump together into bigger ones. The synthesis of the compounds could be helped along by the extra energy given out by Uranus's "electroglow"—the unusual envelope of charged particles surrounding the planet.

Another theory is that gravity is responsible for the absence of dust. Until *Voyager*, scientists had not realised that the Uranian atmosphere penetrates right into the ring system, where its drag could trap smaller, lighter particles and allow them to be sucked into the planet by gravity. Another type of drag—producing a similar effect—could be caused by *Voyager's* weirdest finding: Uranus's lopsided magnetic field.

Before *Voyager*, scientists expected the planet's magnetic field to be small. Uranus's home on the fringe of the solar system keeps the planet cold (its surface is only about 60° above absolute zero), with little likelihood of possessing a hot, metallic core of the kind that gives the earth its strong magnetic field. Yet the Uranian magnetic field turned out to be roughly as strong as earth's.

Odder still is the field's shape. It is slanted at 60° to the planet's angle of rotation, and displaced from the centre by a third of the planet's radius. As a result, it sweeps about wildly as Uranus rotates. Which leads to a theory. Whenever it passes through the ring belt, the magnetic field could tug small particles out of the plane of the rings, to be sucked by gravity into the planet.

If Uranus contains little metal, what produces this magnetic field? The best guess at present is that enormous pressures near the planet's centre compress and heat an ocean of water, and possibly ammonia, to the point at which the molecules break down into a mass of charged particles, generating a magnetic field. The existence of this internal source of heat could also explain why the planet's temperature is uniform across its surface despite the fact that one pole points constantly at the sun.

Dr Peter Goldreich of the California Institute of Technology and Dr Scott Tremaine of the University of Toronto have an elegant theory to explain the sharpness of Uranus's rings. Before the *Voyager* encounter, they developed the notion of "shepherding"—showing in

theory that the presence of two moon rotating on either side of a planetary ring could prevent particles from the ring from drifting away into space. *Voyager* brought good news. Two of the new moons discovered do appear to be shepherding the neatest of the planet's rings.

Graphics chips

Faster on the draw

Manipulating images is back-breaking work for computers. Complex software needed to do jobs as simple as drawing circle. Tomorrow's computers will delegate such jobs to fast, specialised graphics chips. Sensing big sales, Texas Instruments, Intel and NCR have all produced such chips. The first products to use them are expected to reach the shops by the end of the year.

The chips are needed to overcome the clumsy way computers draw. People draw by moving their pencil around the outline of an object, connecting up the corner. Some specialised computer displays do the same thing. But such "line-drawing" displays are expensive, and slow at drawing text. So most computers now use "raster" displays. On these the "pen" (usually an electron beam) moves from top to bottom of the screen in a series of horizontal lines, or rasters.

To draw on a raster display, the computer must first calculate where the outline of the object to be drawn intersects each of the rasters. These points of intersection are then stored in a special file

The unreal thing

When Coca-Cola introduced a "new formula" in 1985, America took it badly. So badly that the company soon had to bring back its "classic" formula to rescue plunging sales. But is classic the same as old? Since Coca-Cola keeps its recipes secret, this is a question for scientists.

The answer is no. Dr Leigh Wyborny and Dr Ira Shannon, dental scientists from Houston in Texas, have analysed old and classic Coca-Cola using a technique

called gas-liquid chromatography that allows them to isolate and identify the sugars present. They have revealed their results in the journal *Nature*.

The old formula had—or at least it did in April 1983—4.7% sucrose (ordinary table sugar), 2.9% glucose and 3.3% fructose. The classic formula now on sale in America has the same total sugar as the old (10.9%) but made up of glucose and fructose: there is no sucrose in it.

The two scientists note that replacing sucrose has enabled Coca-Cola to take the dreaded word "sugar" off the ingredients list, which now says coyly "high-fructose corn syrup and/or sucrose". High-fructose corn syrup is an upstart sweetener that has been eroding cane-sugar's market.

Coca-Cola says it changed the label to make clear to customers that its bottlers were entitled to choose between high-fructose corn syrup and sucrose. The difference, the company adds, is not material. Both sucrose and high-fructose corn syrup boil down to the same ingredients: glucose and fructose. The taste, Coca-Cola insists, is identical.



the computer's memory, which acts as a template for the display. Each part of this display memory corresponds to a point on the screen. As the electron-beam pen scans across the screen, it also scans through the memory. Every time the bits in memory are turned on, the beam paints a dot on the screen.

Using a memory template for painting the screen allows raster displays to make up for their clumsiness in drawing with their dexterity in handling text. Instead of calculating which dots need to be turned on whenever a character is displayed, the computer stores a table containing the pattern of 0s and 1s which need to be loaded into the screen memory to display, say, an "a". To print the "a", the processor simply looks it up in the table, and loads what it finds there into the screen memory.

Graphics chips promise to improve both the printing skills and the artwork of raster displays. This is how:

Line-drawing. The central-processor need only tell the graphics chip the end points of a line, and the chip will calculate where it intersects the screen's rasters and, thus, how to draw it. The chips can also handle other simple geometric shapes, like circles, arcs and polygons.

Text. The graphics chips allow characters to be displayed in many different typefaces. Instead of just one table of the bit patterns which create characters on the screen, the new graphics chips provide a choice between several such tables—each containing a different typeface.

Windows. New-style computer programs often display several different pages of text and/or graphics at once by giving each its own "window". Windows take up all or part of the screen. They can be moved about. And, in many programs, one window can be superimposed on another, or overwrite it. Here, too, graphics chips speed computing by taking over display-work from the central processor.

The trick is to give each window its own section of memory. In this memory is kept the pattern of 0s and 1s which, when translated into dots on the screen, will create the picture and/or text the window to contain. Displaying or moving a window thus consists of piecing together quickly these blocks of data. Graphics chips take over this work from the central processor. The chips need to be told only the size of the window to display, where to put it, and whether to overwrite that part of the screen or superimpose the new window on to it.

Intel sees a good market for its 82786 chip among the business computers that already use its 8086 and 80286 microprocessors. It has ambitions to include the

The great sci-mag shakeout

Popular science monthlies in America are in trouble. Half a dozen new titles were launched in the late 1970s as interest in the mysterious things going on behind laboratory walls began to soar. Readers loved them; advertisers, alas, did not. Earlier this month, Time Inc.—which launched (and relaunched) the best-selling, but unprofitable, science monthly *Discover* in 1980—bought, and promptly closed, its fiercest competitor, *Science 86*. Time wants to do likewise to *Science Digest*. *Scientific American*, which has lost money in recent years, has

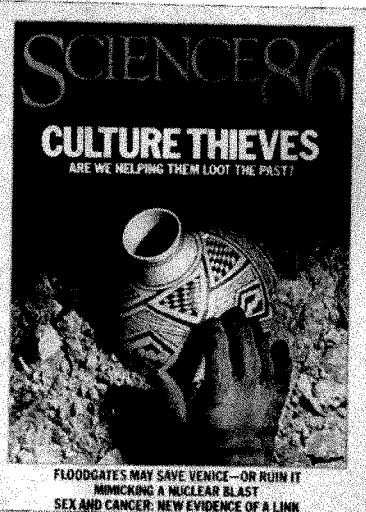
Newspaper and Holtzbrinck). Tenders ranged from \$34m to \$52.6m (*The Economist* bid \$40m). A final drama occurred after the deal with Holtzbrinck was struck when Mr Robert Maxwell, the owner of the Daily Mirror Group and Pergamon Press in Britain, raised his offer from \$34m to \$61m. The new offer has left *Scientific American* in a quandary.

Holtzbrinck will have to do more than merely dig deep into its pockets. Even Time, with enormous resources, has found that the road to scientific enlightenment is hardly paved with gold. Despite its 920,000 circulation, *Discover* has yet to break even. A year ago, the publication was relaunched with a new editorial team and given a couple of years to show a profit. Disposing of the up-market *Science 86*, which was published by the American Association for the Advancement of Science, has bought *Discover* a little more time. Acquiring *Science Digest* (a reported \$1m has been offered to its owners, the Hearst Corporation) will remove the remaining competitor for advertisers.

Scientific American (circulation 620,000) is not short of readers, but has suffered, like the newcomers in popular science publishing, from not having circulation massive enough (the Smithsonian museum's monthly has a circulation of 2m) or select enough to appeal to advertisers.

Time hopes to push the circulation of its science magazine well over 1m by persuading subscribers from its two main rivals to join *Discover*. Even that may not satisfy the advertisers. Makers of scientific equipment tend to advertise in specialist trade publications or learned journals. All the popular science magazines can offer are practitioners and enthusiasts—and not particularly big-spending ones at that. Business magazines mop up most of the lucrative prestige advertising in America.

The sad fact for the popular science magazines is that people interested in science tend to range from schoolchildren to university professors. They are simply not paid enough to raise more than the odd spark of interest behind the plateglass windows of Madison Avenue.



Scuppered

also been sold. Its new proprietor is likely to be Verlagsgruppe Georg von Holtzbrinck of Stuttgart.

Scientific American, founded 141 years ago and doyen of the popular scientific press, was put on the auction block in March when its owners realised that losses on the magazine could drag down the whole company. *Scientific American* Inc also owns W. H. Freeman, a textbook publisher, and *Scientific American Medicine*, a looseleaf monthly for doctors.

Out of seven companies invited to bid for the group, all but Time were non-Americans (International Thomson Organisation, Elsevier, Reed International, the Mirror Group, The Economist

chip in the engineering-design computers being designed around its more powerful 80386 processor. The company's commanding lead in the central-processor market—its processors power IBM and IBM-compatible computers—give its new chip a head start over its rival from Texas Instruments. Texas Instruments has responded by making its chip more versatile. While the functions of Intel's chip are locked into the hardware, the chip from Texas Instruments can be programmed to

learn new tricks. Texas Instruments thinks that computer designers prefer versatility; Intel thinks they need the speed and simplicity of a hard-wired chip.

NCR has different plans. Successful computers for the home—such as Commodore's Amiga and Atari's ST series—sell largely on their ability to draw impressive pictures. NCR reckons that computer makers that put its new graphics chip in their products will be able to give Amiga and Atari an art lesson or two.

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BOOKS AND ARTS

The mysterious heart of matter

INWARD BOUND. By Abraham Pais. *Oxford University Press*. 666 pages. £20. Available in America from OUP, \$24.95. **IN SEARCH OF THE BIG BANG.** By John Gribbin. *Heinemann*. 413 pages. £14.95.

It is 60 years since the giants of modern physics—Planck, Einstein, Bohr, Heisenberg and the rest—shattered the confident judgments of the nineteenth century by showing that space, time and matter are much stranger things than anybody had supposed. The description of the structure of the atom; the explanation of particles as waves and the apparently contradictory explanation of waves (like light) as particles; most of all, perhaps, the so-called “uncertainty principle” (which says that some things are not just unknown but unknowable)—these are among the greatest achievements of the human intellect. Yet despite the long gap, few people have much idea of what the pioneers did, why it matters or what their successors have been up to since the second world war. The electronic revolution is far better understood.

This is partly because schools persist in educating children in the ways of Newton. Students are encouraged to believe that there is a kind of absolute and that space is more or less as it appears to be, regardless of who is observing it. Both ideas are now thought to be wrong but the reasons why are contained in writings that make French structuralists look lucid. The heart of the matter, quantum physics, is a mathematical theory that resists translation into ordinary language because the world it describes is so unlike anything in western experience.

“Inward Bound” overcomes some of that resistance. It traces the development of modern physics from 1895 to the early 1980s—from the discovery by the German scientist, Wilhelm Röntgen, of the x-ray, which gave the first hint that the atom might have a structure of its own, to two recent achievements. The first was the discovery, in 1982, of the z-particle, which confirmed that it is possible to unify two of the four so-called fundamental forces of nature. The second was the formulation of the bizarre “superstring”

theories in 1985, which postulate that the universe is ten-dimensional and consists of strings rather than particles.

The book is invaluable not only for its completeness but for the intimacy it establishes with its principal characters. The author, Mr Abraham Pais, wrote a scholarly biography of Einstein (“Subtle is the Lord”) and worked with many of the pioneers’ inheritors during the past 30 years; the second half of his book takes the form of a personal memoir. It abounds with entertaining anecdote.

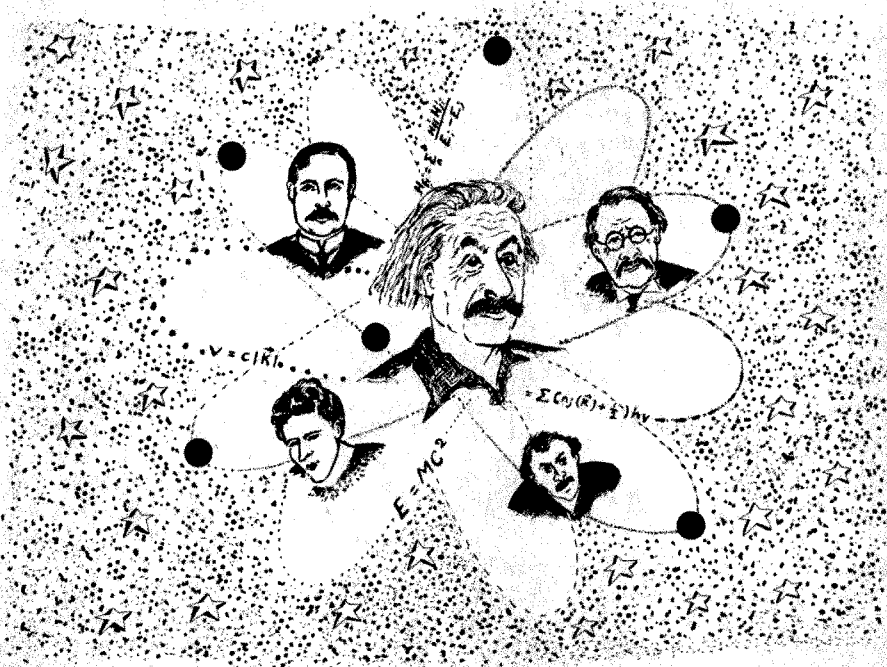
Mr Pais is an eminent scientist himself. He was the originator of the compelling idea that the many sub-atomic particles—including those which are supposed to carry forces—can be lumped together into groups, rather as the elements are grouped together in the periodic table. Such a search for abstract symmetrical relations between particles and forces

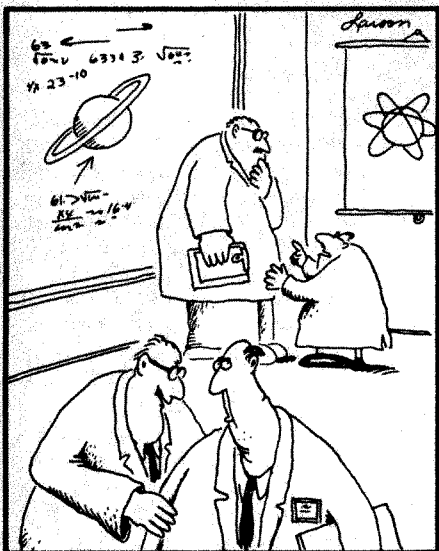
(which can be regarded as streams of “carrier particles”) is what postwar physics has been about.

Anecdotal as it sometimes is, “Inward Bound” is hardly commuter-train reading. It contains much mathematics, though it is not essential to understand its daunting equations in order to follow the ideas. The book is for those who want to understand the technicalities of twentieth-century physics. It shies away from helping the layman understand the implications of what physics has to say.

More help is to be found in Mr John Gribbin’s “In Search of the Big Bang”. It looks like a book about astronomy. That, indeed, is where the book begins—with Edmund Halley and the early nineteenth-century German scientist, Heinrich Olbers (who asked why, if the universe is as big as it is cracked up to be, the vast number of stars that must fill it do not make the night sky blaze with light).

At first sight, no two things could be farther apart than the infinitely-minute world of subatomic particles and the ever-expanding universe. In fact, the big bang—whose occurrence was deduced from observations by an American astronomer, Edwin Hubble, in 1929—has everything to do with quantum physics. So do strange phenomena like black holes and dark matter. Mr Gribbin, who, in his book “In Search of Schrödinger’s Cat”,





"There goes Williams again. . . trying to win support for his Little Bang theory."

took an intelligent and chatty look at the paradoxes of the quantum world, reveals such links without assuming prior knowledge of quantum physics.

The big bang—the moment around 18 billion years ago when the universe started to burst out from a single point—is the archetypal event of quantum physics. Explaining how all that energy transformed itself into matter, "spacetime", the elemental forces and then planets and stars is an exercise in quantum physics. Mr Gribbin spends nearly half his book explaining the subatomic physics which underlie the creation of the universe. Along the way he manages to be witty, entertaining and learned. His book is the work of an expert raconteur.

Though even the best popular books on physics often raise more questions than they answer, Mr Gribbin gives as many satisfactory answers as it is reasonable to expect. Wholly convincing descriptions of the quantum involve volumes of mathematics and years of study. But such books show that, in modern physics, a little learning is indeed a dangerous thing; some well digested knowledge can help.

Telecommunications

Europe engaged: please try later

SUNRISE EUROPE. By Ian Mackintosh. Basil Blackwell. 288 pages. £17.50.

Should European governments invest billions of public euros in a high-tech future? The question is timely. The American multinational company ITT is selling its international telecommunications busi-

ness to France's state-owned Compagnie Générale d'Électricité (CGE); the deal will catapult a European company into second place in the world's telecommunications business. Mr Ian Mackintosh reckons that a thriving telecoms business ought to be the kernel of the continent's technological renaissance, though its author says that governments, not American businessmen, should act as the spur.

That something needs to be done about Europe's information technology (IT) is clear from the first part of "Sunrise Europe". Its account of how America and Japan left Europe behind in electronics makes depressing reading (for Europeans, that is). Though the tale has been told before, Mr Mackintosh, who is a respected telecoms consultant, tells it better than most.

As employment in traditional manufacturing industry stubbornly refuses to grow, politicians have looked to IT to create more jobs. But Europe continues to muddle on with its score of languages, its umpteen national computer- and telecoms-companies, and its libraries full of import rules and procurement regulations; and every year, Europe's share of world markets declines. Its share of its own markets is in decline, too, except where protectionism bolsters the unfit. The result is lower employment in this supposedly buoyant business.

The author reckons that in the past 20 years, Europe's share of the world market for electronic products has declined from 25% to 19%; he thinks that the share will fall below 10% by the end of the century if this goes unchecked. Such a decline would mean that 200,000 jobs will be lost in the IT business (while Japan and America will each create perhaps 2m jobs by the year 2000). Europe's trade deficit in IT products will widen to perhaps \$45 billion.

To stay in the high-tech race, European companies need to compete internationally; to do that, they must be bigger and fewer. But how big and how few? With regrettably little argument, and examples drawn from America alone, Mr Mackintosh concludes that an IT company needs to have a turnover of \$4 billion or more.

This figure can apply only to big, R&D-intensive concerns which make computers and telecoms switches, not to software companies (the largest of which, Lotus Development, had a turnover last year of \$225m) or to makers of peripheral equipment. Until the deal between ITT and CGE, barely a European group had a turnover of \$4 billion. But let the figure pass.

Mr Mackintosh thinks that, if Europe is to win 25% of the world market for IT products by the year 2005 and ensure that it has a trade surplus (laudable goals,

both), it will need about 25 \$4-billion companies. He arrives at this number through some heroic guesswork and concedes that it is only a "broad estimate". The number looks high: fewer, large groups are surely more likely to emerge. North America's entire telecoms-equipment market is served by only three domestic companies.

There follows some fancy mathematical footwork as Mr Mackintosh struggles to calculate how much capital investment would be required to produce companies of this size. Answer: \$300 billion over 2 years. (This is another of the author's "broad estimates".)

And where is this staggering sum to come from? From governments. Mr Mackintosh says that governments ought to intervene in the telecoms business because (a) they can influence it through their policies on what equipment to buy, (b) telecoms is a crucial part of the vaunted "information age" and (c) it is



Too many cooks

huge business. In 1983, Europe's telecommunications authorities spent more than \$17 billion on telecoms equipment—about the same as on all kinds of computing put together and much more than any other part of the electronics market.

Mr Mackintosh does not propose anything so unsophisticated as straight handouts. Instead, he argues for the construction of a so-called "Eurogrid". This would be a broad-band telecoms network encompassing all of Western Europe, would cost the princely sum of \$35 billion. It is rather like the Star-War project, making work for domestic companies and supposedly providing a grand payoff: in this case a comprehensive and most important, standardised network which would allow European companies to exchange data, television images and speech easily and cheaply.

There is little chance that such a vast sum will be amassed; even if it were, the thought of a pan-European bureaucratic spending it sounds like a nightmare. Europe does not seem ready for such a venture: it is already behind on its attempts to standardise two large projects (called the Integrated Services Digital Network and the Open Systems Interconnection). But, if Mr Mackintosh's solution does not inspire confidence, his analysis of the problem's urgency does. An desperate ills sometimes require desperate remedies.

British government

Officials with secrets

CABINET. By Peter Hennessy. Basil Blackwell. 230 pages. £19.50, paperback £7.50.

There is nothing mysterious about cabinet government. Every democracy and most dictatorships have their cabinets; companies have their boards, universities their councils. All these show the characteristic mixture of strong chairmanship, extensive delegation and the use of formal procedures to legitimise the making and content) of countless informal deals.

The only thing that makes Britain's cabinet appear mysterious is the secrecy surrounding its operations—secrecy that

presumably makes cabinet ministers, like freemasons, feel important.

Mr Peter Hennessy is a scholar-journalist (briefly on the staff of this newspaper and now at the Policy Studies Institute). "Cabinet" is the first broadly conceived study of British government at the top since Mr Patrick Gordon Walker's of the early 1970s. The author draws on diaries and memoirs, transcripts of interviews, unpublished documents in the Public Record Office and oceans of "private information" (which laconic phrase appears in no fewer than 88 of his voluminous footnotes).

Mr Hennessy is charmingly ambivalent about the cabinet's alleged mysteries. He is by nature a debunker and revels in publishing charts of "secret" cabinet committees and in showing how (as in the Westland affair) the cabinet system's Rolls-Royce bodywork may conceal an engine filled with rust, nails and gunge.

But with another bit of himself, he clearly stands in awe of the cabinet system and wants it to remain—or at least to seem—mysterious. Otherwise how could he reveal hidden truths about it? The undertow of nostalgia in "Cabinet" is unmistakable. A photograph on the cover shows the author wearing a track suit with the name "Attlee" emblazoned across the chest. If only, Mr Hennessy seems to say, Britain's cabinet were as vital as it was in my hero's day . . .

The impression of nostalgia is reinforced by the book's largely narrative structure. Most of the chapters deal with the recent history of the cabinet machine (with comments on the machine-minding styles of the six cabinet secretaries since Lord Hankey during the first world war). They explore the cabinet's postwar development (as the system tried to cope with increasing problems of "overload"), look at the approach to decision-making of the

A consumer's guide to the globe

Arguments about the deteriorating environment are long on passion, short on facts. **World Resources 1986** (published by Basic Books for the International Institute for Environment and Development; £22.95) will not settle many such arguments but it should at least make them better informed. The first of a planned annual series, it is a compendium of statistics culled from almost every country and ranging from the distribution of the world's seaweed to deaths from accidental pesticide poisoning. There has been no book quite like it before; nor would it have been published but for the encouragement of Mr Robert McNamara, the head of the World Bank in 1968-81.

The book is divided into sections on the earth's basic resources—the soil, water, air, wildlife and people. Its most alarming statistics come from Africa, where the population is increasing by 1m every three weeks, despite an infant mortality rate as high as 15% and a life expectancy of under 50.

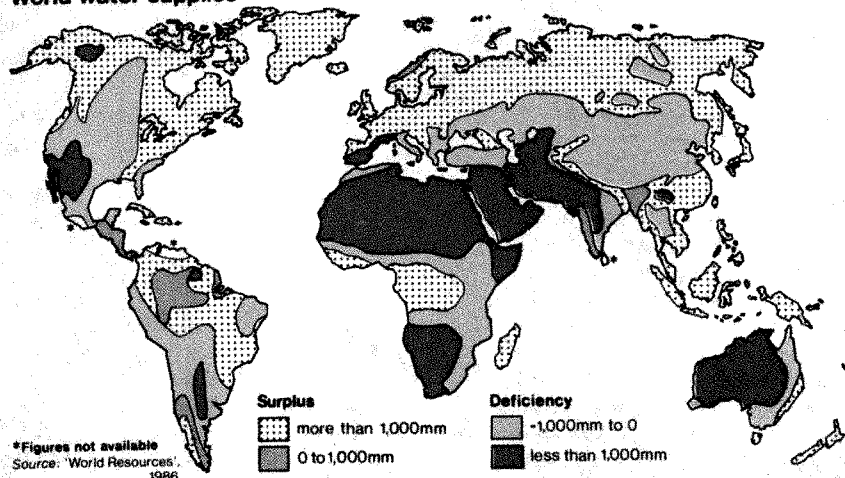
Through the book's myriad statistics runs a common theme: that healthy human life and the environment depend on each other. A cliché? Perhaps, but the numbers seem to bear it out. In 1980 (ie, before the African famine), 700m-800m of the world's 5 billion people ate less than 90% of what the Food and Agriculture Organisation says is needed to sustain a healthy life; of these, half had less than 80%. But even if they had enough food, water-borne diseases, which cause chronic intestinal infections, would lead to malnutrition. Such infections cause 80% of infant mortalities in the third world. Along with water shortages, they result in 25,000 deaths a day.

On both counts, Africa fares worst: it

is the only continent where food production per head is declining; and rainfall in the Sahel is, on average, less than it was 30 years ago. The map shows that in most of Africa—as in the Middle East, Australia and parts of the western United States—the water shortage is severe (ie, each year those areas get 1,000 millimetres or less than the amount required for vegetation).

The book sometimes gives the impression that ecological disaster will strike tomorrow. It says, for instance, that no less than 25-40% of the tropical rain forest that existed before this century had vanished by 1980 and that each year, an area of tropical forest the size of Austria is converted to other uses, endangering 1m of the earth's 5m-10m species of animals and plants. Such figures are guesses. If the rain forest has been disappearing for so long, why is the early 1980s a time of impending crisis?

World water supplies



A possible answer: because of the increase in the third world's population since the 1950s. Half the world, the book reckons, depends on firewood alone for fuel. The resultant scarcity encourages people to burn animal dung instead of wood (thus reducing the earth's supply of natural fertiliser) and, perhaps more important, damages the soil. According to "World Resources", as much as 40% of the bit of Africa which is not already desert is in danger of becoming so.

Trees, of course, are not in danger only in the tropics. "World Resources" includes a prescriptive chapter on acid rain and *Waldsterben*, or forest death. It says that catalytic converters and lead-free petrol should be mandatory; that sulphur dioxide emissions from factories should be banned and that controls should be imposed on nitrogen fertilisers. A healthy environment is obviously beneficial but such prescriptions—especially the second—leave the world of useful information and enter the dreamy realm of wishful thinking.

BOOKS AND ARTS

present prime minister (according to Mr Hennessy, her efforts to turn Number 10 into an argument-free zone have been less successful than outsiders often imagine) and show the varied ways in which prime ministers have handled the delicate problem of atomic weaponry (Attlee never consulted the cabinet on the subject; Churchill did three times).

"Cabinet" is a substantial achievement. Cabinet ministers will learn much from it; students (and their teachers) will learn even more. The author's own suggestions for plugging "the hole in the centre of government" (including better staffing and reduced ministerial work-

loads) are sensible. All that is missing is a cogent analysis to set alongside the chronology. For example, Mr Hennessy quotes Mrs Margaret Gowing, the philosopher of nuclear deterrence: "I find it very odd what goes to cabinet and what does not." But nowhere does he try to answer her implied question. He believes that Britain's relative economic decline stems from the misguided policies and actions of successive British governments and that these policies and actions are, in turn, related to defects in the structure of British government. These are long intellectual leaps and Mr Hennessy does not make them convincingly.

hint of declining standards gets short shrift and long publicity. The Abbey is the seat of Ireland's national theatre and of Irish-language drama. It carries the burden of an illustrious history.

Goldsmith to Friel

Ireland's theatrical tradition starts with Oliver Goldsmith and John O'Keefe (who wrote "Wild Oats") in the eighteenth century. It includes Oscar Wilde and George Bernard Shaw and culminates, in this century, with an impressive array of writers, which includes Sean O'Casey, J. M. Synge, W. B. Yeats, Brendan Behan and Samuel Beckett.

This tradition has in turn nurtured Irish acting. Yeats, Edward Martyn and Lady Augusta Gregory founded the Irish Literary Theatre at the turn of the century; in 1902, Willie and Frank Fay formed a company to produce Irish plays. An amalgam of the two groups became the Irish National Theatre Society, which found a permanent home at the Abbey Theatre in 1904. (In the 1920s, the Abbey and Gate Theatres were known as Sodom and Begorrah after their homosexual mores).

The new generation of dramatists has taken the traditional quality of Irish theatre—which Christopher Fitz-Simon, the director of the Abbey defines as an indigenous lyricism, blurring the distinction between drama and dance—and given it a political edge. Like the younger generation of American playwrights, Irish dramatists paint their country's bitter history on a small scale.

Brian Friel's "Translations" looked at the British colonisation of Ireland, the decline of the Irish language and the famine of 1846-54 by showing the impact of a group of British-army map-makers on a peasant community. The quality of Irish writing is not in doubt, yet as Dowling remarks, "the Irish Tourist Board quotes O'Casey, Yeats and Joyce, but their successors are on the headline".

This is a pardonable exaggeration. The headline thrives. But for all its success at home and in Europe, Irish theatrical life is still overshadowed by London's West End. Many Irish playwrights live in England and it is common practice for West End managers to acquire the rights to new plays, not only in Britain but Ireland too. Yet the Irishness of Irish drama remains—and continues to be exported even though as Christopher Fitz-Simon says, "Irish theatre has a distinctive voice that it takes a long time to understand abroad. Ireland is as foreign as Holland. It is not a province of Britain like East Anglia."

ARTS

Sodom and Begorrah revisited

DUBLIN

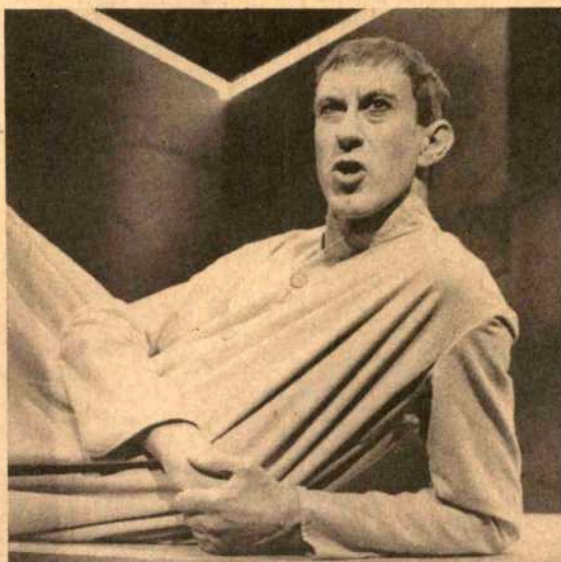
The reputation of the Irish theatre abroad stands higher than for many years. Our special correspondent reports

Europe is discovering Ireland's theatrical tradition. Samuel Beckett's adopted city, Paris, is celebrating his birth near Dublin 80 years ago by staging almost all his plays. The Dublin Gate Theatre's tribute to him, "I'll Go On", is heading for the Edinburgh Festival after a run in London. And a new generation of writers is coming into its own. To pick three at random: Tom McIntyre's "The Great Hunger" will join "I'll Go On" at Edinburgh; Frank McGuinness's "Observe the Sons of Ulster Marching towards the Somme" is due to open on July 24th at London's Hampstead Theatre; and Britain's Arts Council gave this year's award for best new play to "Rat in the Skull" by the Northern Irish writer Ron Hutchinson. The play also scored a critical bullseye in New York.

At home (Southern) Irish playwrights enjoy advantages which make other countries turn emerald with envy. Dublin, a city of fewer than 1m people, supports nine theatres. Attendances are high. The Gate Theatre regularly plays to near-capacity houses. Though the Gaiety's artistic director, Joe Dowling, describes Dublin audiences as "middle class, middle aged and middlebrow", he packs them in and does not have to stage an

unbroken diet of Oscar Wilde to do it.

Only the flagship of Irish drama, the Abbey Theatre, is floundering. Last year, attendances dropped to 63% of capacity (less than the theatre needs to break even). This is not just for lack of public money. Though the Arts Council in Ireland has a paltry £5.8m (\$8m) a year to distribute among the arts—about £1.80 per head, one of the lowest in Europe—the Abbey receives £1.5m of that. Any



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Department of Economics

Applications are invited for the post of RESEARCH ASSOCIATE to work on a project on the Econometric Analysis of the Growth in Numbers Claiming Invalidity Benefit undertaken by the Department of Economics (University) and School of Economics (Polytechnic) and funded by DHSS, starting in September 1986 for a period of 18 months.

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Further particulars may be obtained from Professor A. J. Hughes Hallett, Department of Economics, University of Newcastle upon Tyne NE1 7RU, with whom applications (3 copies) with curriculum vitae and the names and addresses of three referees, should be sent not later than 30 July 1986. Informal inquiries may be made in the first instance to Mr I. Molho in the Department. Tel: 091-232 8511, ext 3586 or Phil Holmes in the School of Economics, Newcastle upon Tyne Polytechnic. Tel: 091-232 6002, ext 3911.

AGRICULTURAL ECONOMIST

The International Laboratory for Research on Animal Diseases (ILRAD), Nairobi, Kenya, is an internationally funded, major institution with the mandate of developing improved methods of control for important diseases of livestock. At present the diseases under study are trypanosomiasis and theileriosis. The multidisciplinary research programme includes biochemistry, molecular biology, immunology, cell biology, pathology, parasitology, electron microscopy and entomology with appropriate supporting units. Applications are invited for the position of Agricultural Economist (Ref: SC/86/13) to join a newly established unit to assess the factors related to the control of animal diseases and to determine the economic, social and environmental implications of improved disease control.

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Further particulars and conditions of appointment may be obtained from the Association of Commonwealth Universities (Appts), 36 Gordon Square, London WC1H 0PF.

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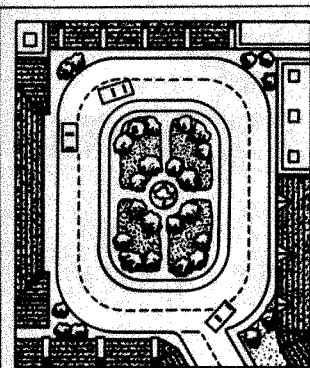
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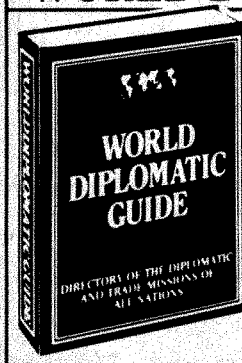
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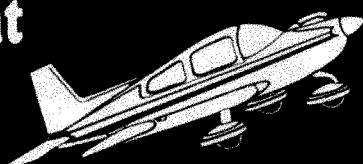
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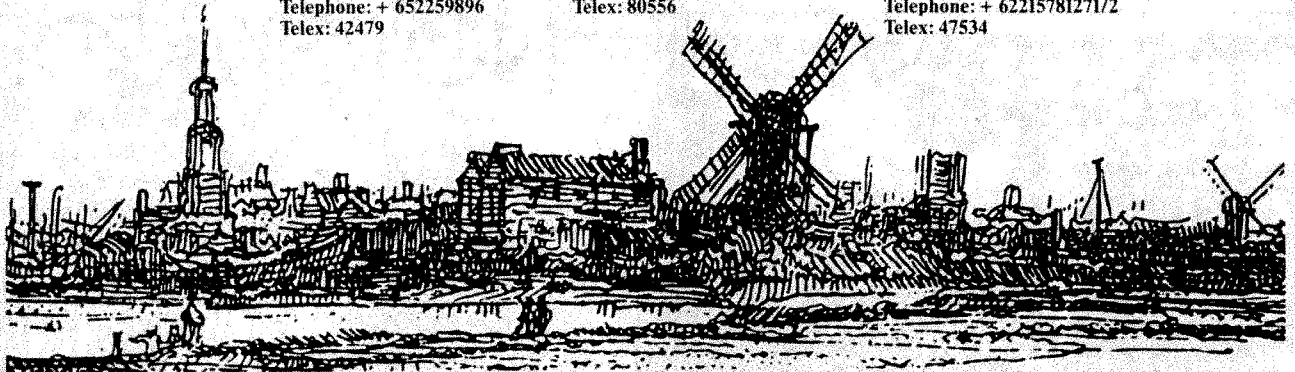
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ECONOMIC AND FINANCIAL INDICATORS 1

OUTPUT, DEMAND AND JOBS America's unemployment fell to 7.1% of the labour force in June, from 7.3% in May. West Germany's jobless rate remained at 9.0% for the third month; Holland's fell to 14.6%. West Germany's industrial production dropped 1.9% in May, reducing the 12-month growth to 2.3%. Canadian industry raised its output by 5.2% in the year to April. Switzerland's GNP fell 1.1% in the first quarter of 1986, but was still 2.2% higher than a year earlier.

	Industrial production		GNP		retail sales		unemployment % rate	
	3 mths†	1 year	3 mths†	1 year	3 mths†	1 year	latest	year ago
Australia	+ 2.4	+ 3.7 (2)	- 0.5	+ 4.7 (3)	+ 4.3	+ 5.0 (12)	7.8 (5)	8.4
Belgium	+ 4.0	+ 3.2 (2)	na	na	+ 6.2	+ 5.8 (1)†	11.7 (5)*	12.8
Canada	- 0.4	+ 5.2 (4)	+ 5.4	+ 4.9 (12)	+ 2.9	+ 5.1 (4)	9.6 (5)	10.4
France	+ 2.0	+ 3.8 (4)	+ 1.2	+ 2.8 (3)	+ 0.6	+ 0.1 (3)	10.0 (5)*	9.8
Germany	+ 3.1	+ 2.3 (5)	- 6.5	+ 1.6 (3)	+ 9.9	+ 4.2 (5)	9.0 (6)	9.3
Holland	+ 5.2	+ 5.9 (4)	+ 0.8	+ 2.0 (12)	- 7.8	+ 1.7 (4)†	14.6 (6)	15.5
Italy	+ 12.8	+ 2.6 (3)	+ 6.1	+ 3.0 (3)	+ 15.6	+ 2.2 (12)†	13.9 (5)*	12.6
Japan	+ 0.5	- 1.8 (5)	- 2.0	+ 3.2 (3)	+ 28.0	+ 5.4 (3)	2.7 (5)	2.5
Norway	- 6.5	+ 4.7 (2)	na	na	+ 28.7	nil (3)†	20.5 (5)*	20.1
Sweden	+ 8.6	- 0.9 (4)	+ 6.2	+ 3.2 (3)	- 3.8	+ 1.9 (12)†	2.3 (5)*	2.6
Switzerland	+ 8.1	+ 6.1 (12)	- 4.4	+ 2.2 (3)	+ 12.6	+ 3.8 (2)	0.8 (5)*	1.0
UK	+ 5.4	+ 1.6 (4)	+ 2.9	+ 2.5 (3)	+ 6.8	+ 2.5 (5)	13.3 (5)	12.9
USA	- 5.1	+ 0.1 (5)	+ 2.9	+ 1.9 (3)	+ 7.9	+ 3.8 (4)	7.1 (6)	7.3

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PRICES AND WAGES This week's new figures show a slowdown in the rate of pay rises in three countries: the 12-month growth in wages fell to 2.5% in America in June, 3.3% in West Germany in May and to 3.0% in Canada in April. In June, the 12-month rate of consumer-price inflation rose slightly to 1.2% in Belgium and to 0.8% in Switzerland, but Italy's inflation rate fell to 6.3%.

	Consumer prices*		Wholesale prices*		Wages/earnings†	
	3 mths†	1 year	3 mths†	1 year	3 mths†	1 year
Australia	+ 2.3	+ 9.2 (2)	+ 7.3	+ 7.9 (2)	+ 9.9	+ 7.1 (2)
Belgium	+ 0.6	+ 1.2 (6)	- 10.8	- 7.1 (5)	+ 16.0	+ 3.0 (12)*
Canada	+ 3.6	+ 4.1 (5)	+ 0.9	+ 1.2 (4)	+ 0.9	+ 3.0 (4)
France	+ 1.6	+ 2.3 (5)	- 2.1	- 0.3 (3)	+ 5.2	+ 3.9 (1)
Germany	- 0.9	- 0.2 (6)	- 5.9	- 2.7 (5)	+ 6.1	+ 3.3 (5)
Holland	+ 1.3	+ 0.5 (5)	- 7.3	- 5.5 (3)	+ 1.3	+ 1.4 (5)
Italy	+ 4.7	+ 6.3 (6)	- 1.9	+ 0.3 (3)	+ 3.0	+ 7.2 (5)*
Japan	- 1.8	+ 0.5 (5)	- 4.4	- 9.8 (5)	+ 4.4	+ 3.0 (4)
Norway	+ 7.6	+ 7.7 (5)	+ 0.2	+ 3.0 (2)	+ 13.4	+ 10.0 (4)
Sweden	+ 2.6	+ 3.4 (5)	+ 0.5	nil (4)	+ 2.7	+ 1.9 (4)*
Switzerland	- 0.7	+ 0.8 (6)	- 7.0	- 4.0 (5)	+ 18.9	+ 3.8 (3)*
UK	+ 5.2	+ 2.8 (5)	+ 7.4	+ 4.5 (5)	+ 11.6	+ 7.5 (4)
USA	- 2.3	+ 1.6 (5)	- 9.6	- 2.0 (5)	+ 1.4	+ 2.5 (6)

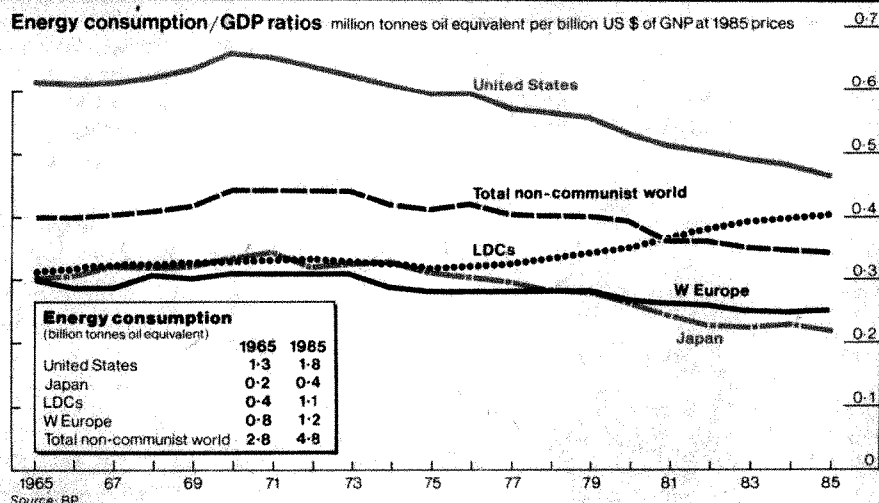
*Monthly wage rates in manufacturing except Australia, weekly earnings; Japan, and Switzerland, monthly earnings; Belgium, Canada, Sweden and USA, hourly earnings; UK, monthly earnings for all employees.

THE ECONOMIST COMMODITY PRICE INDEX Cocoa producers and consumers are making a fifth attempt to draw up a new cocoa agreement to replace the one that expires this September. The Ivory Coast, which does not belong to the current pact, scuppered the last round of talks by walking out. This time it is taking part. If these talks fail, and both sides are still far apart over the price range to defend, the 100,000 tonnes of stockpiled cocoa will be sold off over the next three years. This could further depress a market which is already oversupplied. The council could, however, decide to sell the cocoa back to the producers.

1980=100	July 1	July 8 (provisional)	% change on one month	% change on one year
Dollar Index				
All items	76.2	74.0	- 6.8	+ 0.7
Food	83.3	80.7	- 9.2	+ 5.7
Industrial				
All	68.5	66.8	- 4.8	- 5.5
Nfa*	73.5	73.4	- 1.5	- 4.8
Metals	64.4	61.8	- 7.0	- 6.0
Sterling Index				
All items	114.2	112.4	- 7.6	- 10.1
Food	124.8	122.5	- 10.0	- 5.7
Industrial				
All	102.7	101.4	- 5.6	- 15.7
Nfa*	110.2	111.4	- 2.3	- 15.1
Metals	96.6	93.8	- 7.8	- 16.2
SDR Index				
All items	83.8	81.2	- 8.5	- 14.2
Food	91.6	88.5	- 10.8	- 9.9
Industrials				
All	75.4	73.2	- 6.5	- 19.5
Nfa*	80.9	80.5	- 3.2	- 18.9
Metals	70.9	67.8	- 8.7	- 20.0
Gold				
\$ per oz	345.00	347.25	- 0.5	+ 10.1
Crude oil (spot) North Sea Brent				
\$ per barrel	10.93	9.70	- 16.4	- 64.0

*Non-food agriculturals.

FOCUS: ENERGY CONSUMPTION Last year, the non-communist world consumed 25% less energy per unit of output than in 1970. In industrial countries the energy-to-GNP ratio has fallen sharply for two reasons. First, the oil-price rises of the 1970s encouraged conservation; second, there has been a shift to less energy-intensive industries. Japan has made the biggest savings. It now uses 35% less energy per unit of output than at the start of the 1970s. The United States uses 10% less—but in absolute terms it still consumes twice as much energy per dollar of GNP as Japan. In developing countries the energy-to-GNP ratio is still rising because industry is growing as a proportion of GNP.

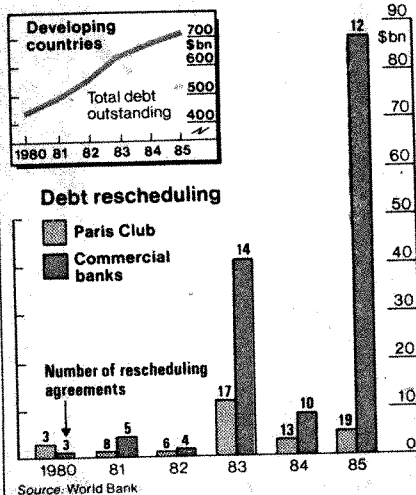


Notes applicable to all tables. All figures seasonally adjusted except where otherwise stated. *Not seas. adj. †Average of latest 3 months compared with average of previous 3 months, at annual rate. n.a. Not available. Small figures in brackets denote month of indicator.

ECONOMIC AND FINANCIAL INDICATORS

FOCUS: DEBT RESCHEDULING

Before the Mexican debt crisis erupted in 1982, debt reschedulings were sporadic and involved small amounts. Now they are huge. During the three years 1983-85, debt rescheduling agreements between developing countries and their international creditors—governments and banks—averaged \$54 billion a year, compared with an average of only \$5 billion a year during the previous three years. In 1985, developing countries rescheduled a record \$93 billion—equivalent to 13% of their total outstanding debt. The rescheduling of another \$26 billion of debt was agreed to in principle but not completed. Mexico accounted for the lion's share last year, with a multi-year rescheduling agreement for \$49 billion—roughly half the country's total debt. Sizeable agreements were also concluded for Argentina, Chile, Ecuador and the Philippines.



WORLD BOURSES America's Dow Jones suffered its biggest ever one-day fall on fears about the weakness of the economy; share prices fell 4.2% during the week. London followed it down, but Tokyo cheered its election results.

Stock price indices	% Change on								
	July 8	1986 high	1986 low	one week	one year	record high	in local currency	31/12/85	in term
Australia	1125.3	1247.0	1010.8	- 4.3	+ 24.7	- 9.8	+ 12.1	+ 2	
Belgium	3710.0	3746.9	2766.9	+ 0.9	+ 58.5	- 1.0	+ 26.0	+ 4	
Canada	2997.3	3129.1	2754.0	- 2.9	+ 9.9	- 4.2	+ 3.3	+ 4	
France	366.1	411.3	267.8	+ 3.2	+ 69.1	-11.0	+ 37.7	+ 4	
W. Germany	1822.8	2278.8	1814.7	- 3.8	+ 25.7	-20.0	- 6.6	+ 4	
Holland	289.5	293.3	240.4	+ 0.9	+ 32.8	- 1.3	+ 13.3	+ 2	
Hongkong	1752.5	1865.7	1559.9	+ 1.1	+ 12.0	- 6.1	- 0.1	- 0	
Italy	709.1	908.2	454.7	+ 3.9	+104.9	-21.9	+ 55.2	+ 7	
Japan	17734.1	17734.1	12891.5	+ 0.6	+ 36.2	nil	+ 35.5	+ 6	
Singapore	733.5	776.9	563.3	- 1.7	- 1.9	-31.6	+ 18.3	+ 1	
South Africa	1189.0	1203.1	1069.3	+ 1.3	+ 18.0	- 1.2	+ 11.4	+ 1	
Spain	175.6	194.8	100.8	+ 2.8	+115.6	- 9.8	+ 75.6	+ 9	
Sweden	2476.6	2510.6	1729.6	+ 1.8	+ 92.7	- 1.4	+ 42.5	+ 1	
Switzerland	548.6	625.5	548.6	- 1.7	+ 17.6	-12.3	- 6.7	+ 1	
UK	1317.7	1425.9	1094.3	- 4.1	+ 41.4	- 7.6	+ 16.5	+ 2	
USA	1820.7	1909.0	1502.3	- 4.2	+ 37.7	- 4.6	+ 17.7	+ 1	

MONEY AND INTEREST RATES Italian banks cut their prime lending rates 13½%; Spanish banks cut theirs to 14½%. Holland's narrow measure of the money supply increased by 5.9% in the year to April; its broad measure grew by 4.5%.

	Money supply		Interest rates % p.a. (Tuesday, except bonds which are previous Friday)		Commercial banks		Bond yields		Eurocurrency	
	% rise on year ago	Narrow	Money market	Overnight	Prime	Deposits	Gov't	Corporate	Deposits	Bond
		(M1)			lending	3 months	long-term		3 months	
Australia	- 0.5	+15.0 (5)	13.00	14.65	17.00	14.60	12.64	13.64	14.78	12.7
Belgium	+ 3.8	+ 7.3(12)	8.00	7.30	10.50	6.80	8.57	9.62	7.13	na
Canada	+ 2.9	+ 4.8 (6)	9.13	8.50	10.25	8.45	9.24	9.95	8.44	9.8
France	+ 4.4	+ 5.6(12)	7.13	7.25	9.60	7.25	7.81	9.28	7.31	8.4
W. Germany	+10.3	+ 7.6 (5)	4.70	4.70	7.00	4.28	6.30	6.05	4.56	5.9
Holland	+ 5.9	+ 4.5 (4)	6.50	6.25	8.00	6.25	6.25	6.70	6.00	6.4
Italy	+10.4	+11.0(12)	12.25	12.13	13.50	11.50	10.97	9.55	11.31	na
Japan	+ 5.4	+ 8.6 (5)	4.38	4.63	4.13	2.13	5.13	6.14	4.53	5.3
Spain	+15.5	+13.1 (4)	12.38	12.83	14.50	6.50	12.41	13.14	13.00	na
Sweden	na	+ 3.0 (3)	10.00	10.15	12.75	9.69	9.63	10.88	10.00	na
Switzerland	+ 5.8	+ 6.1 (4)	2.38	4.69	6.75	4.25	4.45	4.84	4.81	4.7
UK	+22.0	+19.5 (5)	10.63	9.97	11.00	9.84	9.11	10.32	9.97	9.3
USA	+13.1	+ 7.7 (5)	6.81	6.25	8.50	6.15	7.18	8.90	6.75	7.6

Other key rates in London 3-mth Treasury Bills 9.3%, 7-day Interbank 10.5%, clearing banks' 7-day notice 4.4% Eurodollar rates (Libor): 3 mths 6.8%, 6 mths 6.8%.

†M2 except Australia, Canada, Spain, Switzerland, USA, W. Germany, M3, Japan M2 + CDs, UK EM3. Definitions of interest rates quoted available on request. Sources: Bank of Bilbao, Chase Manhattan, Chase Econometrics, Banque de Commerce (Belgium), Nederlandse Credietbank, Credit Lyonnais, Svenska Handelsbanken, ANZ bank, Credit Suisse First Boston. The rates are indicative only and cannot be construed as offers by these banks.

TRADE, EXCHANGE RATES AND RESERVES America's trade deficit was \$14.2 billion in May, compared with \$12.4 billion in May 1985; its 12-month deficit yawned wider than ever at \$162.6 billion. West Germany's trade surplus fell from \$4.0 billion in April to \$3.7 billion in May; but its 12-month surplus continued to climb, to \$34.8 billion in the year to May. The D-mark and the dollar changed little in trade-weighted terms during the week, but the yen's trade-weighted value rose 1.4%.

	Trade balance**		current-account balance \$bn	Trade-weighted† exchange rate		currency units per \$		currency units			foreign reserves††	
	latest month	latest 12 months	latest 12 mths	latest	year ago	latest	year ago	per £	per SDR	per ecu	April	year ago
Australia	- 0.17 (5)	- 2.1	- 9.9 (5)	53.0	66.5	1.61	1.47	2.47	1.91	1.59	6.6	6.5
Belgium	+ 0.33 (3)	- 0.7	+ 0.1(12)	95.4	89.8	44.7	59.6	68.4	52.9	44.0	5.1	4.7
Canada	+ 0.77 (4)	+ 9.7	+ 3.2 (3)	78.7	87.6	1.38	1.35	2.12	1.64	1.36	2.6	2.7
France	- 0.34 (5)	- 2.5	+ 0.6(12)	69.2	65.7	6.99	9.01	10.7	8.26	6.87	26.5*	21.5*
W. Germany	+ 3.74 (5)	+ 34.8	+ 21.6 (5)	135.7	122.9	2.18	2.96	3.34	2.58	2.14	45.6	37.9
Holland	+ 0.64 (3)	+ 4.2	+ 5.9(12)	126.1	113.4	2.46	3.33	3.76	2.90	2.41	11.2	8.8
Italy	- 0.58 (4)	- 10.0	- 4.1(12)	46.5	45.6	1492	1889	2284	1769	1470	17.2	18.7
Japan	+ 8.42 (5)	+ 69.1	+ 63.2 (5)	212.3	156.0	161	244	246	191	158	31.3	27.0
Spain	- 0.50 (5)	- 5.3	+ 3.6 (5)	48.8	47.7	139	170	213	164	136	11.5	11.8*
Sweden	+ 0.48 (5)	+ 3.6	- 1.1(12)	67.6	67.1	7.09	8.56	10.9	8.42	6.98	6.6	4.5
Switzerland	- 0.26 (3)	- 3.7	+ 4.5(12)	162.1	141.9	1.77	2.48	2.72	2.10	1.74	16.2	12.8
UK	- 1.01 (5)	- 4.6	+ 4.5 (5)	75.9	83.2	0.65	0.73	—	0.77	0.64	14.7	10.0
USA	-14.21 (5)††	-162.6	-125.2 (3)	113.8	141.2	—	—	1.53	1.19	0.99	35.4	21.4

**Canada, Australia, Japan, France and UK imports fob, exports fob. All others cif/fob. †Bank of England index 1975=100 ††excluding gold. *March. †† not seasonally adjusted.

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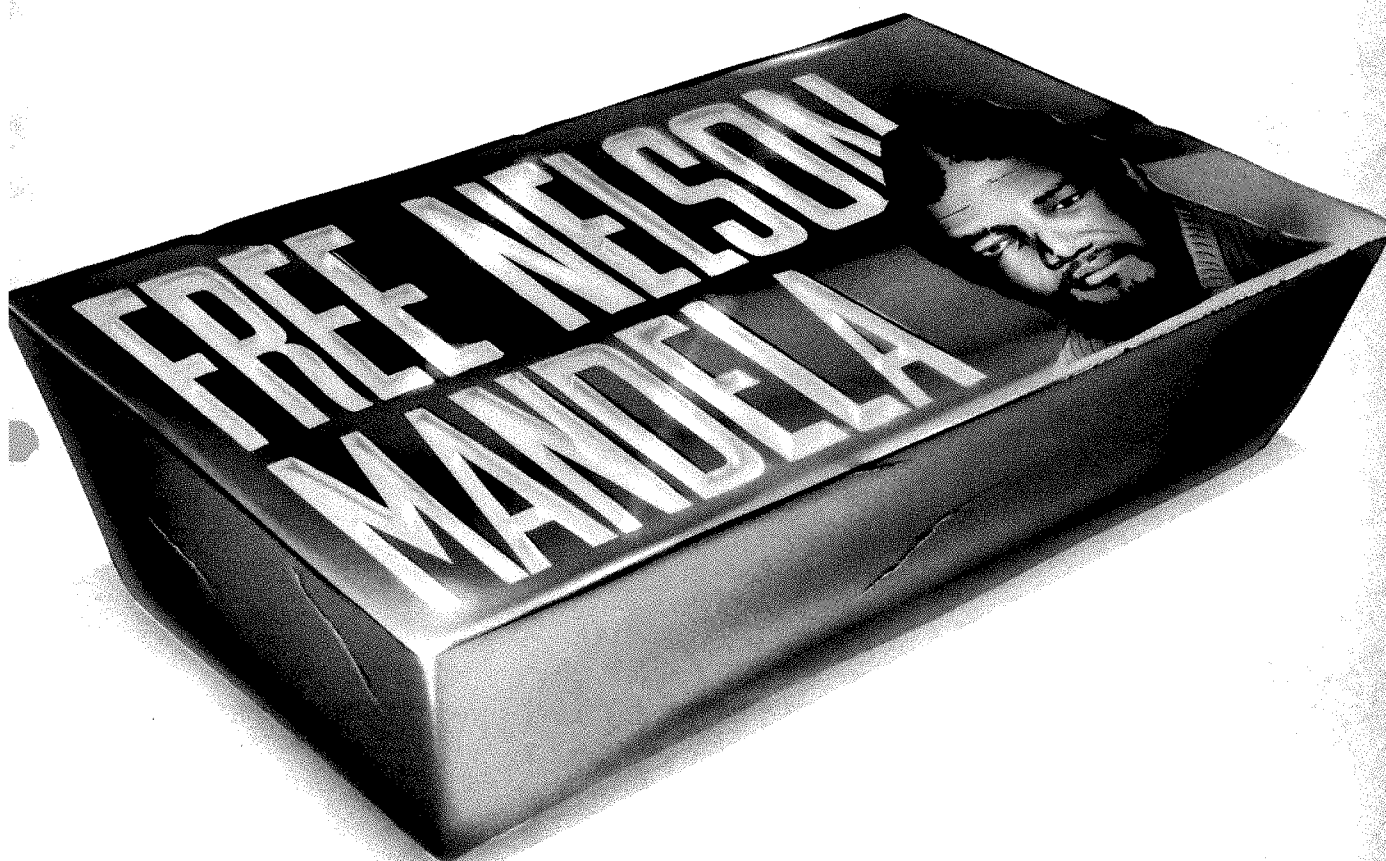
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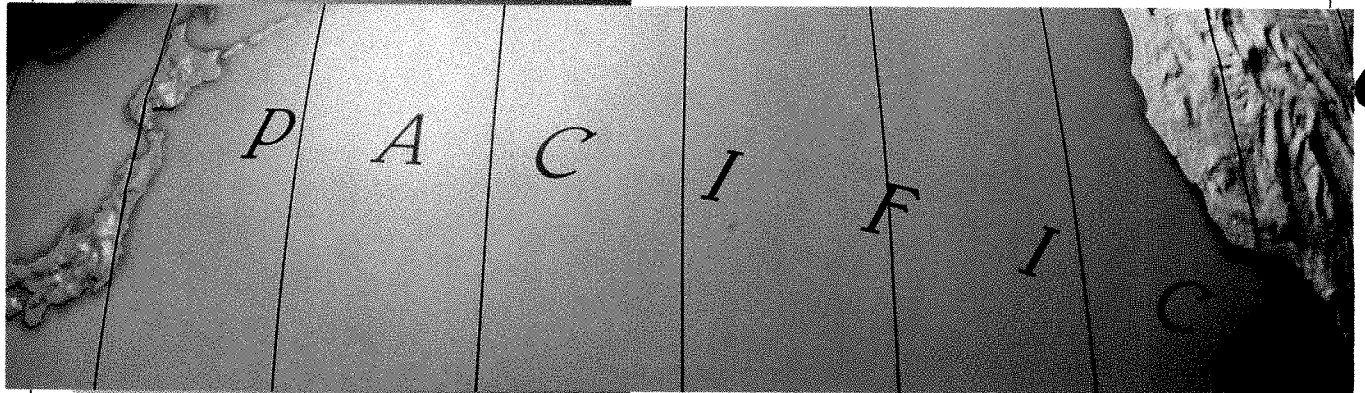
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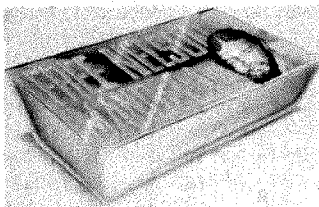


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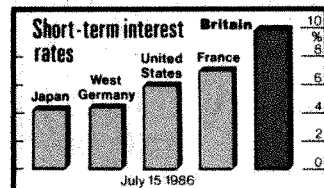


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LETTERS

Life without America

SIR—Can America really afford to leave an “ungrateful” Europe (July 5th)? The NATO countries in Europe (North American Territories Overseas?) are the forward marches of the American defence of America.

If Western Europe fell to, or arranged appeasement with, the Soviet Union, where would that leave the United States? Very isolated and therefore probably very vulnerable. No international war has touched American territory (except Pearl Harbour) and American missiles and servicemen are in Europe to make sure it stays that way. They do not want to try to defend America from New England.

If we Europeans are also protected by this, then that is our good fortune; but we should never allow ourselves to be lulled into forgetting that American governments, quite naturally, consider American interests first. To pretend that American forces are in Europe only to defend Europe is an illusion.

Athens

VICTOR T. STUBBS

SIR—Europe, after 41 years on the American umbilical cord, would definitely be better off without the American physical military presence, which now gives it a convenient false sense of security, thereby avoiding get-

ting its own military house in order. Europe, larger in population than the United States and just as wealthy, surely has the economic and political resources to develop its own hardware and philosophical defensive posture.

Europeanisation would also be a blessing for America. Perhaps not for the armed forces, which would lose some vested interests, and perhaps a few politicians and civil servants, but certainly for the beleaguered American taxpayer, who would be spared the heavy annual cost of maintaining an American army in Europe. The American defence industry may suffer in the short run but its restructuring may eventually be inevitable anyway because of the already increased European military hardware projects.

The best possible defence is one that Europe develops itself. Europe, which is geographically close to the Russian bear, has a far greater appreciation of the dangers and how to control them than any distant ally.

Flemington,
New Jersey

CARL F. KETTLER

SIR—History has left us with two superpowers and no room for others at the table. Age-old rules will undoubtedly dictate that both will seek supremacy over the other but the underlying assumption that “war is the continuation of diplomacy by other means” no longer holds for them.

The non-superpowers can now thankfully look to the future. For Europe, the challenge is to ensure that, over the next few decades, the two rampaging antagonists are brought to rest in peace, respecting our freedom. Snuggling up to either puts at risk the chance that this will happen.

London

D. A. A. FAGANDINI

SALT is dead

SIR—Mr Gerard Smith's letter decrying the American rejection of SALT-2 (June 21st) was misguided in its efforts to avoid admitting that the Russians have clearly violated that treaty. There are specified percentage limits on length and weight growth—about 5%—before a missile will be considered “new”. The SS-25, approximately 50% larger and more powerful than the older SS-13, to which it purports to be an “improvement”, does not even

come close.

- In addition, the Russians have not met the 2,250 limit on missiles and bombers (they have about 300 more). Mr Smith claims they need not do so because the limit is tied to ratification, but that is precisely the point: everything in a treaty is tied to ratification, and SALT-2 is not ratified. Even if it had been, it would now have expired.

SALT-2 is now an historical anomaly, marking the end of a decade during which the United States saw strategic parity erode as the result of flawed arms treaties. We allowed the Russians, either within the agreements or outside them, materially to change the balance of power to the detriment of western security.

The renunciation of SALT-2 should have no material effect on Soviet behaviour beyond the cosmetic. If the Russians find it militarily useful to add strategic systems or numbers, they will do so, treaty or no treaty. Real arms control will come only when Soviet leaders accept that their perception of their own security is such as to make their neighbours feel insecure. That is not a recipe for stability in anybody's cookbook.

Washington,
DC

RICHARD P. SYBERT

Lobbyists

SIR—My Daddy always told me that when you talk to the papers make sure they get your quotes and your name right. Your story, Tax Lobbyists (May 24th), got half of it right. We are the Competitive—not Corporate—Enterprise Institute.

This distinction is important, given the fact that few corporate lobbyists champion competitive policies. The traditional business lobbyist restricts himself to tactical changes and relies heavily on influence and access and greatly prefers that the policy debate be off-stage. In the tax debate, the business community focused on tactical efforts to preserve special breaks, and thus was caught off-guard when the choice became breaks or rates.

The Packwood tax-reform bill is now backed by a coalition, the 15/27/33 Coalition, supporting the lower rates and working to ensure that this bill is adopted. The fact that most think we will succeed suggests that the pragmatists have once again been less realistic than the idealists.

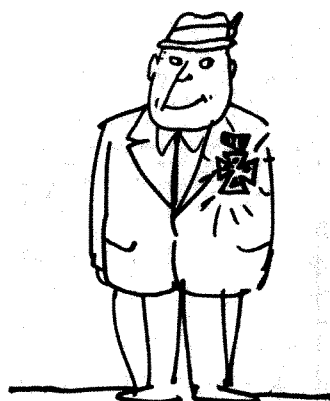
Washington,
DC

FRED LEE SMITH, JR

Eurotitles

SIR—The survey of various European honour systems (June 21st) demonstrates that, even in a divided continent, the modern versions of old venerable traditions are much in demand. It is interesting to note that the Soviet Union has apparently accepted the notion of privilege despite the perpetuation of failed Leninism.

Although titles are regarded as historical relics in most republican countries, there is usually a respect for the individual's rights to continue such a heritage. Not so in Austria, which garners so much pride from its imperial past, yet continues to keep the most absurd of all prohibitions on its books. A 1919 law forbids the use of all historical titles, including those particles which are part of the surname: The prefix von



but curiously not *de*, *di*, or the Polish *ski* which were also common nobility forms during the monarchy. Thus we have “Dr Habsburg” and “Mr Liechtenstein” but, since some allowances are made for the arts, Herbert von Karajan. Aside from the obvious social and cultural hypocrisy, such antiquated radical excess is a preposterous curtailment of individual freedom and certainly detrimental to Austria's historical values and achievements.

Both Austria and Italy should look to West Germany, which considers titles a legal part of the name. The preservation of a family's historical continuity has obviously not detracted from modernity or republicanism, as President Richard Freiherr von Weizsäcker can attest.

Regarding your speculation on future “EEC honours”, the International Pan Europa Union, a major force in the movement for European integration since 1927, has long conferred what might be considered a forerunner—The Order of Europa.

Los Angeles R. VON DASSANOWSKY

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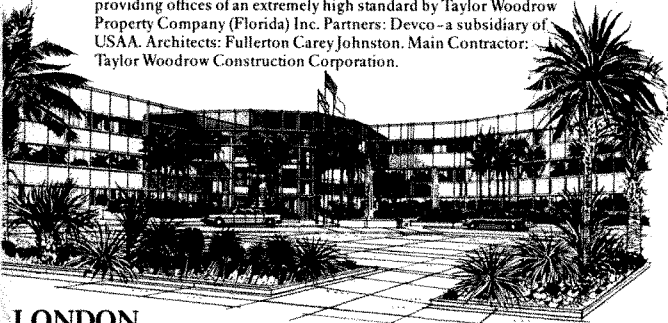
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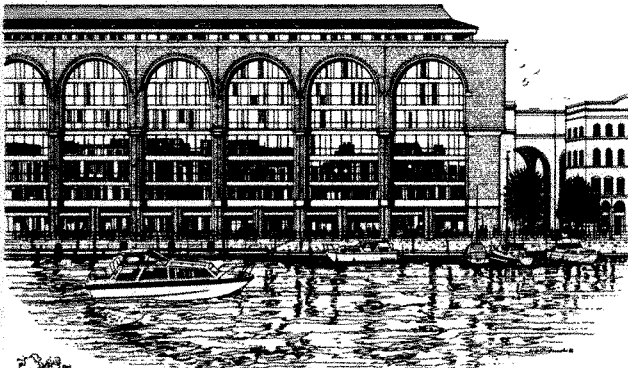
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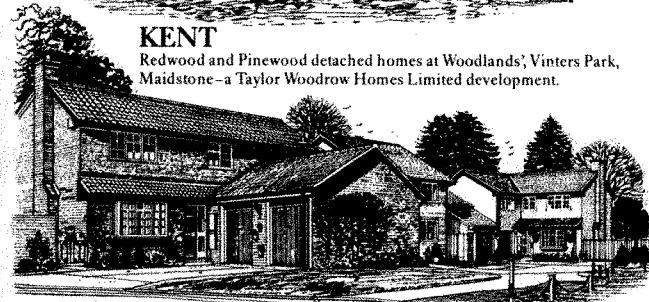
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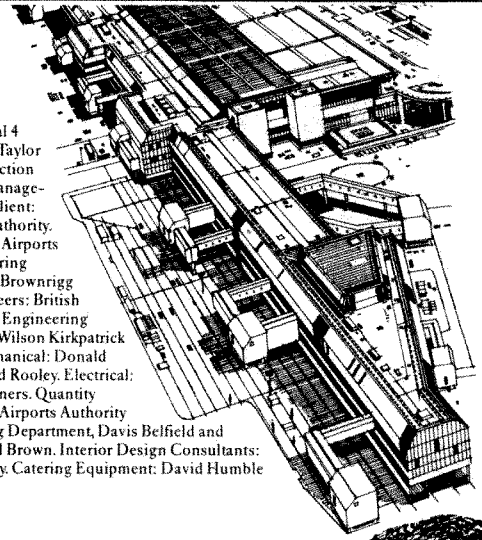
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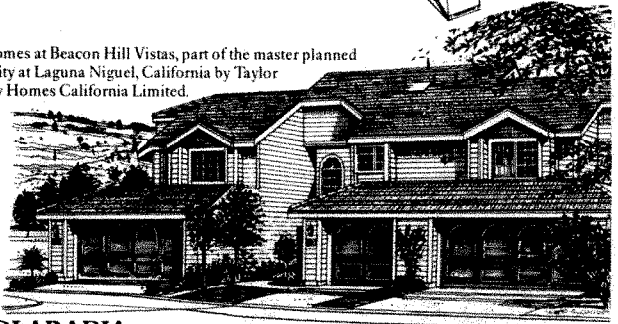
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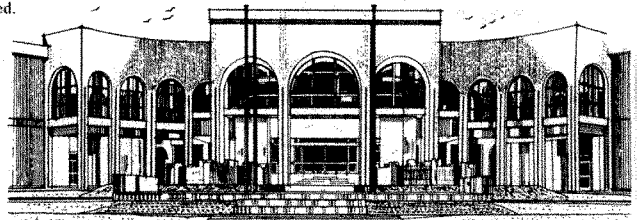
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Go for gold

If the free world is moving towards sanctions against South Africa, it had better calculate which sort it could actually impose. Most enthusiasts for them assume that governments should forbid their businessmen to sell to South Africa any of the \$14 billion of goods and services which that country buys from abroad each year. About half of those \$14 billion consist of manufactured goods that could be shipped from almost anywhere—carrying labels saying they were bound for Brazil, Israel, Tangiers, you name it—and then end up in South Africa after a delay of a few weeks.

That would not cripple the smallest economy in Africa, let alone the largest. Even if half of these imported manufactures—representing about 5% of its GDP—had eventually to be made in South Africa, at an average cost perhaps 50% higher than today's cheaper and better foreign goods, that would mean a once-for-all rise in prices of 2½%, or perhaps an extra inflation of just under 1% a year in the next three years. Societies do not revolt against such tiny rises, imparted in a way that would give a protectionist boost to local industry. Many politicians get elected by foolishly promising protectionism of precisely that sort.

The other half of South Africa's imports are said to be trickier for it, like oil. Are they? If South Africa offered twice today's world price for oil, its oil bill would still stay far lower than last year's—and the few supertankers it needs would then steam eagerly past any blockade, just as OPEC oil has flooded the country despite OPEC's embargo against sales to South Africa. Since Argentine ships reached Port Stanley while the trigger-ready British navy circled that tiny port, how would the free world's trigger-cautious navies blockade South Africa's 2,400 miles of coast? Sink each Durban-headed Liberian supertanker, thereby polluting Seychelles tourist beaches with 600,000 tons of oil? The Liberian would always have papers showing that his tanker was going round to the Cayman Islands.

An experiment and a silencer

The intelligent case against sanctions does not rest on the untested proposition that an effective and applied embargo would do nothing to change the course of events in South Africa. Rather, it is that they would not be effective, because not applied: even if every government passed them into law, they would be evaded. But

this case, tested and proved a dozen times by history, is not believed by many governments. The result is international discord on a grand scale, setting rich north against poor south, black against white, even some governments in Western Europe against each other. That pleases only the South African government and the Politburo.

It is time for the main western powers to take back the initiative. There is one economic pressure that can be applied against Mr Botha without involving an improbably large number of sanctioners, and thus ensuring that some of them cheat. The opportunity arises because about half of the \$15 billion of foreign exchange that South Africa earns each year comes from its two biggest exports, gold and diamonds, each of which has its price weirdly propped because (for gold) central bankers and (for diamonds) an international cartel are holding more than 90% of potential supplies off the market. Hornblower could not blockade this half of South Africa's exports, sales of which can be made by telephoning Zurich and Amsterdam to stick a new ownership label on crates already airlifted there. The most achievable quick sanction would be to threaten to cut the world price of gold.

At present South Africa's annual 21m ounces of newly mined gold fetch around \$350 an ounce simply because 950m ounces of existing gold are held out of the market, in central banks' vaults. America owns 263m of those ounces; a dozen other rich countries own more than 10m ounces each. Holland, which favours strong sanctions, holds 44m. Some of this gold is still valued in central banks' mendacious balance sheets at the old "official" price of \$35 an ounce. If Sir Geoffrey Howe's mission to Pretoria draws its expected blank, governments in North America, the EEC and the Commonwealth would be wise to stop shouting at each other and consider whether to issue some communiqué like:

Unless Mr Nelson Mandela is released by September 30th, the central banks signing this statement will start to sell gold from their vaults, with the object of slashing gold's market price.

This would make a large cut in South Africa's earnings within one hour, because private hoarders from Bombay to Brittany would be rushing to sell their gold at crashing prices before the central-bank selling began.

Diamonds could be anti-apartheid's second-best



friend. South Africa earns about \$1 billion a year from sales of diamonds, which are marketed through a ring that keeps prices at a huge multiple of cost. Free countries could say that any of their nationals who operate in cahoots with this ring will be prosecuted under restrictive-trade-practices acts. They would be hitting at South Africa's vitals, without doing great and unpopular harm to the many more of their own businesses that would be affected by a policy of generalised sanctions. And those who have the interests of a black-ruled South Africa at heart should remember that that someday-country will need precisely the other competitive exporters and foreign multinationals which the boycott-potty want to smash or make withdraw.

Innocent victims will need help

Will there be criticisms of this suggested policy of playing politics only by threatening the gold and diamond markets? Yes, torrents. Banks will forecast financial crisis if the loans they have made on the assumption of \$350-an-ounce gold as collateral suddenly have their collateral shrunk. Some honest businesses involved in the present peculiar systems of distributing and mining gold and diamonds would be ruined. Pity poor Arabs who have placed their oil fortunes in gold rather than in banks, Indians whose wives flaunt dowries in bracelets made from the smuggled metal, and expect interesting ructions in the underworld. Untraceable diamonds and gold are currencies used in the great international trades in heroin and tax evasion.

There would be some wider risks. If the 950m ounces

of gold in central-bank vaults were suddenly decimated in market value, governments might have to loosen a squeeze on international liquidity. In pre-Nixon days, when everybody agreed it would be economically absurd ever to help only South Africa and the Soviet Union by allowing the gold price to rise even one cent above \$35 an ounce, every Princeton professor had his own scheme for extending international liquidity, by allowing intellectually managed SDRs to take over the role hitherto superstitiously filled by gold. Some of those schemes might usefully be dusted over, and it would for once be right to make Johnson-Matthey-type rescues of stray financial institutions that were hurt by the gold-bust.

First sales of central-bank gold should be decided by whether Mr Mandela is released before September 30th. Later threats of sales could be graded to any terms Mr Botha offered to him and other black leaders; when the terms became ones that Mr Mandela would be unreasonable to refuse, the central banks could start buying back now-cheap gold.

A gold-bust could show, as conclusively as man knows how, whether economic pressure has any influence on South Africa's unfolding tragedy. Nobody can be sure that it would work, but it might. Britain abandoned the invasion of Suez in 1956 when Eisenhower's muttered ultimatum threatened a collapse of sterling. This was more tactful and effective than threatening that the American Second Fleet would blockade the Isle of Wight, so as to ban Scotch whisky exports from Glasgow.

Props for the pound

High interest rates are a damaging way to keep sterling damagingly strong

Foreign-exchange dealers have decided that sterling is a petrocurrency after all. Until last week it had shrugged off a drop in the price of oil from \$28 a barrel to \$10. But when the price went below \$10, the pound's trade-weighted value fell 3%. Hopes of an early cut in interest rates were replaced by talk of a rise.

The change of mood should not have been necessary. A sliding oil price is the only good reason for letting the pound fall: problem matched by solution, both connected to the long-term health of the British economy. If exporters are to fill the gap left by lower oil revenues, their international competitiveness must improve—ie, sterling's real exchange rate has to drop. The virtuous way of engineering such a drop, by Britain's unit labour costs falling faster than its competitors' have been doing, cannot be wished into being. And the cost-boosting effects of a fall in the nominal exchange rate will at least be muted while oil is getting cheaper.

On most calculations, the pound needs to depreciate by around 10-12% to compensate for the drop of two-thirds in oil prices. Yet, at the beginning of last week, sterling's trade-weighted value was barely 3% below its

average 1985 level; even by the middle of this week was still only 6% lower. As a result, the prospects are grim for Britain's current account as net oil revenues halve from £8 billion in 1985 to less than £4 billion next year. Some of that lost revenue will be replaced by higher invisible earnings—including income from £90 billion of foreign assets, much of them stashed away since 1979. But the non-oil trade balance is deteriorating almost as rapidly as the oil surplus. In the three months to May, the volume of non-oil exports was 2% lower than in the same period of 1985, while imports were 4% higher. After seven years of surplus, Britain's current account looks set to swing into deficit in 1987.

The main reason for the pound's resilience to tumbling oil prices is, of course, high interest rates. Real short-term rates are a staggering 7½% in Britain, three percentage points higher than the average of the four biggest OECD economies. The government has kept interest rates—and hence the exchange rate—high for two reasons. First, it feels unable to ignore the rapid growth in sterling M3, still the most watched (if most misleading) measure of money. Sterling M3 jumped by



over 18% in the year to June, way above its already generous target of 11-15%. Government officials worry that the liquidity "glacier" could become an inflationary flood if interest rates were cut. More likely, sterling M3 has been swollen by the financial revolution and a permanent shift in savings habits: the money stored up in it is not going to be spent.

The second reason for keeping money dear and sterling high was to put pressure on companies not to concede excessive pay rises. This is a legitimate weapon, but a dreadfully blunt one. Unless it is backed by other measures that will make the labour market work more smoothly, it will bludgeon the economy into recession again. In the three months to May, manufacturing output was 1% lower than a year earlier.

Next year, rising inflation and a current-account deficit will be joined by mounting concern about the

impending election. These are the ingredients for a full-blown sterling crisis. The longer the government tries to delay the pound's inevitable decline, the bigger the risk of a collapse next year. That would give Mr Nigel Lawson, the chancellor of the exchequer, the unenviable task of raising interest rates in the weeks before polling day—and almost certainly having to accept a drop in the pound as well. How much better to allow the slide now for a good economic reason than later for a bad political one.

A slide has other virtues if it happens in the next few weeks. Sterling would probably go down against the D-mark, but stay steady against the still-falling dollar. This should allow the government to follow America's lead and cut interest rates soon, while leaving the way clear for popping the pound into the European Monetary System at a super-competitive rate.

Two consuls in Rome

The Craxi-de Mita row could open up a new vista in Italy



The oldest landmark in the politics of Western Europe—more than 40 years of unbroken rule over Italy by the Christian Democrats and their small-party allies—may soon be demolished. The fall of Mr Bettino Craxi's government on June 27th was a bigger event than most people had realised. It was not just a struggle for power between the two big men of Italian politics, the Socialists' Mr Craxi and the Christian Democrats' Mr Ciriaco de Mita. Nor was it just "another" government rearrangement, like the two score that preceded it. It marked the end of Italy's longest spell of unbroken government (nearly three years) since the second world war; and it could carry Italy a long step nearer a true two-party system.

Italy has suffered from two main political ills since the overthrow of Mussolini. The first was the fact that the Communist party dominated the left of the political spectrum. Most Italians thought a vote for the left was too risky, so they kept in power a Christian Democratic party which grew fat over the years from vote-buying and bureaucracy. The second complication was that the Christian Democrats needed the support of some of the half-dozen smaller parties to make up a majority. The result was ever-changing governments that seldom seriously changed policy.

In 1983 the tough-minded Mr Craxi, leader of the largest and most necessary of those allies, the Socialists, stopped the merry-go-round. He insisted on becoming prime minister of a coalition which, by general consent of its members, would last for three years. The Craxi government has increased Italy's authority abroad. The economy has grown at a respectable 2-3% a year, inflation fell from 15% in 1983 to barely 6% now, and the horrific budget deficit of 16% of GDP has recently at least got no worse.

The novel experience of having more Christmases

than governments ended when the Christian Democratic party's secretary, Mr de Mita, said that after three years of playing second fiddle it was his party's turn to lead the orchestra again. Mr Craxi retorted that he should be allowed to go on pleasing the audience. Otherwise, he hinted, he might consider himself free, after a general election, to go into alliance with the Communist party. Even in the present parliament, a coalition of Communists and Socialists, plus the small Republican and Social Democratic parties, if they joined in, would have a slender majority.

A Socialist-Communist get-together?

Until now, Mr Craxi's mistrust of the Communist party had seemed to make such an alliance impossible. But what better laboratory for testing the genuineness of the Communists' claim to be converted to democracy than a government led by the staunchly pro-western Mr Craxi, who could end the experiment at the first signs of the Communists reverting to type? With Mr Craxi as prime minister, even foreign bankers and NATO allies might accept the idea of Communists in government.

This threat of a Socialist-Communist get-together would, Mr Craxi thought, be enough to silence Mr de Mita and make him accept the arrangement the Socialist leader much prefers—a continuation of something like the present Christian Democratic-Socialist combination. Why did Mr de Mita not immediately comply? Because he still had cards to play. He is confident of the Christian Democratic party's electoral strength: last month's local election in Sicily showed no decline in Christian Democratic support, only a slight increase in Socialist support, and a continuing erosion of the Communists' vote under their ditchwater-dull leader, Mr Alessandro Natta. In the next general election, Mr de Mita believes, any hint of a Socialist-Communist

alliance would stampede nervous voters to the Christian Democrats.

Mr de Mita's other card is a rather dog-eared one: Mr Giulio Andreotti, the veteran Christian Democrat who was asked to assemble a government to succeed Mr Craxi's (see page 35). The Socialists said last week that they would not serve under him, and a couple of other small parties followed suit. Mr Andreotti's only other hope was to persuade the Communists to back him in parliament, without being members of his government, as he so skilfully managed to do between 1976 and 1979; but the Communists, who did not enjoy those years of responsibility without power, are not keen to indulge Mr Andreotti. They would prefer an "alternative of the

left" in alliance with the Socialists. Mr Andreotti, or some fresher face, may have to stitch together a temporary arrangement for as long as it takes to get Italy's next budget approved and to prepare for an early election.

It looks a confusion, but it may conceal a new coherence. Italians can take comfort. Either of the prospects likely to face them after an election—a renewal of the Christian Democratic-Socialist alliance that has ruled them better than anything they have known for years, or a controlled experiment with an alternative government of the left—would be better than the one-party domination that the lack of an alternative has imposed on them for the past 40 years.

A yen for foreign investment

A stronger currency is at last pushing more Japanese companies overseas

Japanese governments have punctuated this decade with apologies for their country's current-account surpluses and with promises to cut them in future. To no avail: the surplus widened from \$5 billion in 1981 to \$21 billion in 1983 to \$49 billion in 1985. That inexorable rise would by now have gone into reverse were it not for the fall in commodity prices. Japanese exports are officially forecast to shrink by 5% in volume this year. More telling still, the falling profits reported by Japanese companies since the Group of Five conspired last September to push up the yen suggest that a stronger currency is about to price some made-in-Japan goods out of world markets.

For the evidence, look beyond the survey of 425 big companies listed on the Tokyo stock exchange. It shows an overall decline of 8.4% in corporate profits in the latest financial year, but many of these companies are in domestic businesses like construction and retailing where foreigners tread only gingerly. Look instead at the profit drops of 20% or more reported by big exporters: Casio Computer, Hitachi, Mitsubishi Electric, NEC, Seiko, Yamaha Motor and many others.

Of course, to ascribe it all to a stronger yen, as some Japanese companies are doing, is misleading, and sometimes deliberately so. The worldwide slowdown in sales of semiconductors, hi-fi equipment, video-recorders and personal computers has hurt all consumer-electronics companies. Overcapacity in shipping and shipbuilding is worldwide, too. It is China's reduced foreign-exchange reserves, not a mighty yen, that have cut Japanese exports across the East China Sea.

The squeeze on profits also owes something to creative accounting. The financial year for most Japanese companies ended on March 31st. The average exchange rate for the yen during that year was Y221 to the dollar, barely above its average level (Y238) for the four years to March. With everybody in Japan expecting the worst, Japanese exporters have been writing down just about everything, from dusty stocks of last

year's model to shiny new robotic tools.

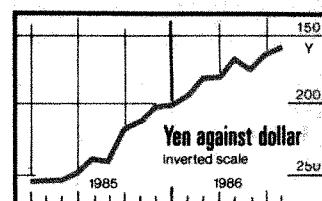
Japanese accountants are super-conservatives. Profits are understated so much that the price-earnings ratio on the Tokyo stock exchange is around 45, compared with 14 in Britain and 18 in America. Many Japanese accountants are today taking full advantage of a fiscal system that allows them to pull together all manner of special (untaxed) reserve funds for a rainy day, label them debts and so reduce their taxable profit. The Nakasone government is pleased. The more evidence it can cite to show that a stronger yen is doing its stuff, the less the pressure on Japan to produce another emergency package of financial liberalisation, export restraints and accelerated imports.

Export-substitution industries

Do not, however, let the proviso obscure the big change. Though Japanese companies are both crying before they are hurt and exaggerating the pain, exporting ceases to be fun when the yen has risen to Y160 to the dollar. Most manufacturers have already started buying more components from abroad and raising their dollar-denominated transfer prices to overseas subsidiaries. If these have yet to come through to the customer, it is because branch managers are scared of losing hard-won market share. But they will soon have to increase prices—or risk repatriating losses, not profits, at the end of the present financial year.

Still better evidence that more Japanese companies are coming to accept that an under-valued yen is a thing of the past is their growing interest in direct investment overseas. Countries seeking job-creating investments are being treated with a new seriousness, especially by Japanese makers of home appliances and lowish-tech goods (see page 60). The new rule of thumb for Japanese exporters is: if it costs less than \$100 to produce, make it in South-East Asia; otherwise build a plant as close to your export market as possible.

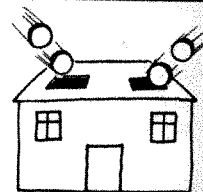
Suddenly, those brave investment decisions of a



decade ago—to build car plants in Kentucky, Tennessee and Ohio, electronics factories in Oklahoma, Arkansas and South Wales—look like paying off handsomely. If the yen settles back to around Y180 to the

dollar, many of them could make profits out of exporting their products back to Japan. If it goes to Y147, as the Industrial Bank of Japan is forecasting, they could make a fortune.

Half-way housing



Bad rules are stopping private money getting into Britain's public housing

Britons need more kinds of housing. Most have to choose between renting homes from local authorities and owning their own. Fewer than 10% of households now rent from private landlords. Yet more rented housing, at a price the poor and the young can afford, would mean a more mobile workforce and, by breaking a near-monopoly of local-authority landlords, would encourage them to raise their standards.

The 2,600 housing associations would love to help. Halfway between public and private sectors, they do a job which the private sector cannot begin to do, under rent controls, and which the present government will not finance councils to do adequately: they house the poor and other groups with special needs, about 1m people in all. Barely a quarter of their new tenants in 1985 had jobs; half had incomes below £60 a week. And housing associations do the job well. They are non-political; they are generally run by volunteers; they are mostly small—one with 2,000 houses is rare; management costs are much like those of councils (except in London, where they are far lower); they can be the base for self-managed tenant co-ops. In short, they are a worthy mixture of public spirit, self-help and small-is-beautiful. You might expect such bodies to be specially dear to Tory hearts. They are not.

Capital for the associations' new building or rehabilitation comes, through a central body, the Housing Corporation, from government. Unlike Whitehall de-

partments', its money—about £850m a year gross, £725m net—has been frozen in cash terms, and is planned to stay that way. In real terms, that implies a fall. So the corporation is doing just what Whitehall should want: it is looking for private money.

A little is now arriving for the low-cost homeownership schemes that the associations also operate. Getting private capital to build rented homes is bound to be harder, because housing-association rents, like those of most private landlords, are controlled at uneconomic levels. Mix public and private money, though, and it could be done. The more imaginative building societies are ready to help. Enter Whitehall.

Its first objection is that public money costs less to borrow than private, so why pay extra—Catch 22, given that public cash is tightly rationed. All right, say housing associations: councils spend vast sums keeping homeless families in bed-and-breakfast—why not let us build for them, and get just part of the money as rent? No, replies Whitehall: that would mean shifting council spending from one heading to another. What about flat-sharing schemes and sheltered housing, where sensible rents can be charged? Perhaps. But the Treasury—which does not want more money, from any source, going into subsidised housing—insists that part-public spending counts as fully public. The Housing Corporation says it is talking to Whitehall and hopes for a change of heart. It was saying that a year ago.

Genetic interfering

Examine genes to discover health risks, but don't let the information fall into the wrong hands



After racism and sexism, geneism? Medical science is about to set another teaser for lawmakers: discrimination against people because of their genetic make-up. It is posed by advanced genetic-screening techniques that promise to revolutionise medicine by showing how susceptible a person is to this or that disease. Which is marvellous, so long as people are not denied jobs and insurance just because of their genes.

This is a real danger as employers and insurers scramble for information about who is going to die when, and of what. The few precedents are not encouraging. Several of the rare genetic defects have

already prompted cases of discrimination. A few years ago, the American air force barred people with sickle cell trait (the carriers of a blood disease) from the Air Force Academy. That was a boob: carriers do not have the disease themselves and are a danger only to their progeny. The new tests vastly multiply the possibilities for misinterpretation.

American biotechnology companies are already developing marketable batteries of tests that single out those most likely to succumb to fairly common conditions—heart disease, diabetes, alcoholism, emphysema and several cancers—long before the illnesses start to

develop. In the van is Focus Technologies of Washington, DC. It will soon run a trial of its BioMark programme, in which several thousand people will be screened for some 40 conditions.

One of its tests tries to predict the lung disease emphysema by looking for the genes that determine production of an enzyme called AAT that detoxifies tar. Focus says that low AAT producers who continue to smoke heavily are likely to get emphysema. But the purpose of the tests is prevention, not ghoulish prediction. The company says it will test only for conditions that can be fended off.

That is an essential restraint, for it is hard to see how anybody can benefit from learning that he is susceptible to an unstoppable disease. But even tests confined to avoidable diseases contain dangers if employers or insurers can insist on them, and misuse the results. If a company could pick out the people likely to succumb to workplace hazards, it might decide not to hire them rather than, eg, reduce the level of coal or cotton dust.

Such decisions could be made to sound reasonable.

Some companies already bar women of reproductive age from working with some substances in case they harm the foetus. So another essential restraint is to make the results of the tests available only to those who undergo them, at least until genetic screening has proved reliable and until sensible ethical and legal guidelines are in place. Tell people that smoking will kill one smoker in two and they can believe that they will have the lucky lungs and hearts. But tell a person that he will almost certainly get emphysema if he goes on smoking and he is likely to take heed. With these minimal safeguards, genetic testers ought to be allowed to get on with their work.

Of course, those who get a clean bill of health on an AAT-emphysema test may breathe a sign of relief, light up and then die of lung cancer instead. But when there are tests for all the ills that smokers are prone to, that problem should dissolve. In the meantime, a little genetic knowledge will sometimes prove a dangerous thing. So be it. If you want a lot of knowledge eventually, you have to go for a little bit first.

Fading tunes of glory

Are a symptom of Vietnam's sickness

Vietnam is living in the past. This is an affliction of countries that have astonished themselves by a martial triumph. Vietnam's war, with its extraordinary victories over first the French and then the Americans, ended a decade ago. In Britain, a decade after the second world war, a senile Churchill was finally prevailed upon to retire. It is not easy to change a winning team, even when it is long past its best: so the Vietnam war heroes are still fumblingly in charge of peace.

The new leader of the Vietnamese Communist party is Mr Truong Chinh, who is 80. He succeeds Le Duan, who died on July 10th at the age of 79. Mr Truong Chinh will rule with the help of the prime minister, Mr Pham Van Dong, who is also 80, and the party strategist, Mr Le Duc Tho, who is 75. If Ho Chi Minh were still alive, at 96, no doubt even he would still be lecturing the Politburo. So ends, for the time being, speculation that Le Duan's death might enable a young Vietnamese Gorbachev or even a young-minded Deng Xiaoping to bring new life to a decrepit country.

Vietnam appears incapable of such a change. If Vietnam were a person, he would seem to be going mad: not simply living on his memories of tunes of glory, but incapable of living in any other way. The therapist entrusted with the case would note that this was not the result of any intellectual failure. The Vietnamese know as well as anybody else that their country is dirt-poor, dependent on the not-very-generous charity of the Russians, whom they despise as "dollarless Americans". They surely appreciate the absurdity of spending a third of the country's income on its army when one week's real diplomatic effort could

dramatically ease its troubles in Kampuchea and its border squabbles with China.

But the therapist would also have to take account of the unreal side of Vietnam. Armies of occupation are out of fashion in South-East Asia these days, but Vietnam seems unable to accept the change. It is incapable of economic consistency. In June, several ministers were sacked, apparently because they opposed a tiny attempt at free-market reforms, including letting peasants sell some of their produce privately. But the new policymaker-in-chief, Mr Truong Chinh a bitter opponent of the free market, especially in agriculture. He once ran a Maoist-style agricultural policy so catastrophically that Ho Chi Minh sacked him. Students of irony may also note that General Giap, he of Dien Bien Phu and other military masterstrokes, and now 74, is in charge of Vietnam's maternity services.

The Prussia pattern

In their hour of triumph in 1975 the Vietnamese were known as the Prussians of Asia. Not an unapt title. The original Prussian soldiers were peasant conscripts who, under Frederick the Great, had a series of astonishing victories. The word Prussian symbolised brute force long after Prussia's power had waned. Now a myth has grown up around the new Prussia. It is seen as a dragon whose prisoners can be freed only by Rambo. It is more sensible to think of Vietnam simply as sick. Unfortunately, no therapist is available to move its mind from memories of war to the unsung crafts of peace. Such things come more easily to countries that have lost wars, not those that have won them.



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INTERNATIONAL :



As those behind cry forward

"Commonwealth fury", say some of the headlines, "Commonwealth in danger". Yes, well, we have been here before. Repeatedly.

Just 20 years ago, President Kenneth Kaunda was urging the presidents of Kenya, Tanzania and Uganda to join Zambia in threatening to leave the Commonwealth if Britain would not toughen the steps it was taking against a white government in Africa (Mr Ian Smith's Rhodesian regime). They refused to join him. That was in July 1966. In September a Commonwealth conference produced a formula which Kenya and Uganda hailed as satisfactory, and Mr Kaunda dropped his threat. In 1969 President Julius Nyerere served a warning that Tanzania would pull out if Britain made the deal with Mr Smith that then seemed imminent; but the deal was not made.

In spite of many predictions, the Commonwealth has survived Britain's entry into the EEC as well as the 15-year-long Rhodesian wrangle. It has survived numerous other quarrels among its members and even full-scale wars between them (India and Pakistan in 1965, Uganda and Tanzania in 1979). The withdrawals of Ireland, Pakistan and South Africa were not acts of protest about Britain's policies. The number of members has

doubled in the past 20 years and now stands at 49. Of all these, Zambia is at present alone in threatening to withdraw. (Boycotts of Commonwealth games, see page 43, are much more modest, and familiar, gestures.)

When Sir Geoffrey Howe, the British foreign secretary, visited Zambia on July 8th, Mr Kaunda reiterated his warning that he would pull Zambia out if the seven Commonwealth heads of government, who will meet in London on August 3rd, fail to agree that South Africa's government should be subjected to severe economic pressure.

But Mr Kaunda's reluctance to take the threatened step was shown in his subsequent comment that "the Commonwealth is a wonderful organisation, and everything must be done to keep it going." And there have, meanwhile, been indications that Mrs Thatcher may feel she has already reduced expectations about the August meeting enough to enable her to make some concessions there. The Commonwealth secretary-general, Mr Shridath Ramphal, may thus be justified in voicing the belief that "there is a point between comprehensive sanctions and mere gestures at which Commonwealth leaders can meet."

The August meeting, like the recent

activities of the "eminent persons group" (EPG), is a product of the agreement reached at last October's Commonwealth conference at Nassau. There, the 49 governments, declaring that apartheid posed a "challenge to the values and principles of the Commonwealth" which could not be ignored, agreed to send the EPG to South Africa to try to help get negotiations going between the government and the black population's "true representatives". They also agreed to apply certain economic measures, including bans on sales of oil and on government loans.

If adequate progress was not made, the nominated seven heads of government (of Australia, the Bahamas, Britain, Canada, India, Zambia and Zimbabwe) would meet and "further measures" would be considered, possibly including bans on new investment in South Africa, on air links with it, on imports of its farm produce and on promotion of its tourist trade. If, again, these steps proved inadequate, the heads of government would consider "further effective measures".

As Mr Ramphal has emphasised, the intention of the "staged" approach adopted at Nassau was that a full trade embargo would be applied only as a last resort; the fact that it was being held in reserve might serve to discourage South African retaliation against neighbouring states. Mrs Thatcher's assertion that what most Commonwealth governments are now contemplating is really a matter of "signals", rather than punitive measures, does not seem irreconcilable with this interpretation of the Nassau accord.

So what is now in prospect is a lot of

INTERNATIONAL

strenuous pulling and hauling but not, as things stand, a final breaking up of the Commonwealth. Why, then, those lurid headlines?

People with good memories may recall seeing them appear on the eve of almost every Commonwealth conference in the past quarter of a century. By now, one might suppose that the penny ought to have dropped. It should have become clear that, although a member-state which threatens to pull out can thereby exert a fair bit of leverage, an actual withdrawal may leave it with none.

Most Britons, most of the time, are not aware of the Commonwealth. The only thing that automatically attracts their at-

tention is a warning that it is in danger of breaking up. Each warning, in turn, brings out sceptical comments. It is argued that a break-up would not matter anyway; and that Britain must not be browbeaten by a motley group of governments most of which are notoriously undemocratic and tyrannical.

Most of those comments are ill-founded. Over half the Commonwealth's governments are democratic; far more than half of its inhabitants live in democracies. Some of the tough talk recently directed at Britain's government has come from Australia's government, and even from Canada's Conservative one.

It is true that the British do not now

need the Commonwealth in the special way they needed it in the 1950s and 1960s, when it cushioned the shock of the relinquishment of empire. But that does not mean that the world does not need it. Indeed, although the great increase in membership has ended the former intimacy and informality of its meetings, the Commonwealth's cohesiveness has been strengthened in the past 20 years by the admission of many small states which find membership particularly valuable. The threats to disrupt this unique organisation, which no longer make much impression on the British, have to be taken more seriously by a large majority of the other member states.

China's lost generation

FROM OUR PEKING CORRESPONDENT

The cultural revolution began 20 years ago this week, after Mao Zedong's famous swim of the Yangtze River, and did not end until ten years later with the arrest of the Gang of Four. Today China is bustling with freeish markets, girls in summer dresses, zippy new cars and armies of construction cranes. But the scars of the cultural revolution, which was started by Chairman Mao in pursuit of a dotty political theory and then whipped up by his wife and her three henchmen, still mark every part of Chinese life.

Those worst affected are the 130m or so Chinese now in their late twenties to late thirties, many of whom were left unschooled in the chaos that all but destroyed China's education system. They should by now be moving into positions of responsibility and putting China's economic reforms into practice. Instead, they make up what factory managers and village elders call the "lost generation". During the period that China's leaders now refer to as the ten years of upheaval, some 17m young people were removed from the cities to the countryside, to "learn from the peasants". Many are still waiting for official permission to rejoin their families. Countless more were orphaned when their parents were caught up in the violence of Chairman Mao's Red Guards or else packed off to labour camps.

They were not the only sufferers. China's Communist party leader, Mr Hu Yaobang, reckons that up to 1m Chinese died during the cultural revolution and perhaps 30m were persecuted by the "leftists". Intellectuals, religious believers, even people who could speak foreign languages, were ostracised or sent to labour camps. It was dangerous to be suspected of harbouring "bourgeois" or "feudal" thoughts.

Many of today's leaders, including Mr Hu and the man behind China's reform programme, Mr Deng Xiaoping, spent

the cultural revolution in political disgrace. Most of them suffered personally as well as politically. Mr Deng's son was permanently crippled when he was thrown out of a second-story window at Peking University. Some of today's leaders found themselves doing manual labour, sweeping streets or cleaning toilets.

Since they returned to power, one of their main jobs has been to repair the damage the Red Guards left behind. It is hard to put a figure on how much China's industry and agriculture lost in those years. Pure destruction apart, factories and farms were not modernised and roads were not built. Housing, health care and education were neglected. As one senior Chinese official put it recently: "We didn't just lose ten years, we lost at least 30."

The human damage will be harder to repair. Some in the lost generation have managed to make up, in part, for the

education they missed the first time round. But others, now with jobs of a kind and families to look after, are having trouble picking up the skills that are needed in modern China.

Educated Chinese of an older generation, who suffered or watched the persecution of colleagues during the cultural revolution, are understandably reluctant to get involved in today's experiments with economic reform for fear that something like the years of upheaval will happen again. For the same reason, recent calls for another "hundred flowers" campaign in China, an echo of Mao's call in 1957 for greater freedom to express new ideas, send shivers down many a spine. Mao quickly lost control of the movement and ordered the new blossoms it produced to be cut down. Some think this persecution was a harbinger of the cultural revolution.

In effect, China lost not one generation to the chaos, but two. Many Chinese, including Ba Jin, a leading writer, believe it will take several more generations before China can put the effects of the cultural revolution behind it.



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Chile

Why stop in 1997?

"There is only one problem in Chile: the president himself," fumed a former government minister recently. In answer to calls for his resignation from the Marxist left, the democratic left, middle-of-the-road Christian Democrats, the right-of-centre National party, the trade unions, employers' organisations, the Roman Catholic church and even, in a quiet way, from the United States, President Pinochet announced on July 12th that he would seek a further eight-year term when his present one runs out in 1989. He needed more time to prepare "new laws", he explained vaguely. "We are not going to hand over the government for the pure pleasure of it."

President Pinochet, who is 70, came to power in a 1973 coup that drove out Salvador Allende's Marxist government. He promised to return the country to democracy when conditions were right, and in 1980 drew up a constitution that gave him an eight-year presidential term. Under that constitution, General Pinochet's successor is to be picked by Chile's four-man military junta in 1989. His three colleagues on the junta—the commanders of the navy, the air force and the armed police—are said to be unhappy about the prospect of General Pinochet succeeding himself. But, as army commander, the general has more guns.

The president's task in putting the economy right after the dismal Allende period is, it seems, never done. He presided over a free-market experiment in the 1970s which came unstuck when a spate of bankruptcies led the government to rescue many firms. The general is now trying to privatise them.

His other pretext for staying in office is the communist threat. Support for the Communists has increased over the past few years, the party's militancy having been seemingly vindicated by General Pinochet's refusal to step down. However, straw polls suggest that the Christian Democrats, the right-of-centre parties and the non-Marxist Socialists all command more popular support. One right-of-centre politician grumbles that "the Communists need Pinochet, and Pinochet needs the Communists".

The opposition has organised a series of protests. In the latest, a two-day strike on July 2nd, eight people were killed. One of them was Rodrigo Rojas, a young Chilean living in the United States who returned home for a visit. He and a girl companion are said to have been seized by soldiers, doused in petrol, and set alight. Their charred bodies were found

later by the side of the road.

Some 2,000 people turned up for their funeral. The American ambassador was on hand to watch the mourners being tear-gassed. General Pinochet, like the deposed President Marcos of the Philippines, has lost the sympathy of his American ally. Unlike Mr Marcos, he has plenty of force at his disposal to stay in office.

Thailand

Proper Prem

FROM OUR SPECIAL CORRESPONDENT IN BANGKOK



Thailand is governed by soldier-politicians. But they do make the gesture of first putting on civilian clothes. Thus the prime minister, Mr Prem Tinsulanonda, a retired general, can claim to have provided Thailand with its longest-serving civilian administration. He has held power since 1980, surviving two attempted army coups, and will almost certainly be asked to lead the next governing coalition that emerges from the general election on July 27th. He is not taking part in the election himself because, he says, he does not want to jeopardise his political neutrality.

For all his aloofness, Mr Prem faces the humdrum problems of any other prime minister. An austerity programme introduced last year made him widely unpopular. General Arthit Kamlangek, when he was still the army's commander-in-chief, criticised Mr Prem's economic policy and is believed to have engineered the parliamentary defeat that led to this month's election. Mr Prem got rid of General Arthit and replaced him with the more reliable General Chaovalit Yongchaiyuth. General Chaovalit has now also replaced General Arthit as a likely future prime minister. He plans to retire from the army next year and go into politics.

The fall of General Arthit has shaken the opposition to Mr Prem. The Chart Thai party, the largest opposition party in the previous parliament, has dumped its anti-Prem leader, Major-General Pra-

marn Adireksarn, and replaced him with his brother-in-law, Major-General Chatichai Choonhavan, who happens to be an old friend of Mr Prem. Chart Thai's financial backers had told the party's leadership that they would not waste money on the election campaign of a party with no chance of a share in government. If Mr Prem does lead a coalition that includes Chart Thai, his government should command well over 200 seats out of the 374 in the next parliament.

Mr Prem's short-term future therefore seems secure and, despite his world-weary noises about retiring, his appetite for power remains sharp. All the same, there is a sense that his time as leader is running out. A lot of Thais are bored with his talent for masterly inactivity, even if it has managed to keep Thailand's sort-of-democracy intact. Mr Prem was recently blamed for the failure of security in Phuket, where a \$45m plant producing tantalum, a rare metal used in electronic components, was damaged by environmentalist rioters. The plant has been closed down, and its fate may discourage foreign investment in Thailand.

The betting is that Mr Prem will retire in 1988, the year King Bhumibol turns 60. It is said that the king would like him to preside over the birthday celebrations. Mr Prem's road to retirement may be smoothed by the economy's performance. Cheaper oil should save Thailand nearly \$1 billion this year, and give the government more latitude in its public spending. And by 1988 General Chaovalit will have been demobbed for a year, and be enough of a civilian to take over.

Tunisia

Sfar so good

FROM A CORRESPONDENT IN TUNIS

Despite his wilting physique and on-off lucidity, Tunisia's 82-year-old president, Mr Habib Bourguiba, has shown once again that he can still hire and fire with undiminished vigour. His prime minister, Mr Mohammed Mzali, who had spent six years limbering up for the presidency, has been replaced by Mr Rachid Sfar. But few Tunisians conclude from this that Mr Sfar will take over when the *suprême combatant*, as even the constitution calls Mr Bourguiba, finally goes.

The *téléphone Arabe*, as the Tunis rumour-mill is known, says that Mr Mzali is in disgrace and, like previous objects of presidential displeasure, could even face prosecution for "public mismanagement". The former interior minister, Mr Driss Guiga, was almost as well placed as Mr Mzali. He was then blamed for riots over a rise in the price of bread, fled the

Fewer is still better

It is hard to outflank President Reagan on the right, but it can be done. As his administration begins to debate whether it should make yet another arms-control proposal this summer, two different groups of American experts are beginning to criticise the latest Reagan offer to the Russians. Their reasoning? It may have gone too far in the direction of cutting nuclear weapons.

The first group is led by Mr Brent Scowcroft, a retired air-force general who was President Ford's national security adviser. Mr Scowcroft argues that the nuclear balance becomes unstable when one side has enough "hard-target killers"—warheads with the accuracy and explosive power needed to destroy the other side's missile silos—to think that it can more or less obliterate its adversary's land-based nuclear weapons by suddenly hitting first. Not all nuclear weapons are in land-based missiles; but many people agree with Mr Scowcroft, saying that only land-based missiles are accurate enough to threaten an attacker's remaining missiles. Submarine-launched missiles and bombers are too inaccurate, slow or unreliable.

In general, an attacker can be fairly sure of knocking out a target silo by firing two "hard-target killers" at it. The left-hand pair of columns in our table shows that at the moment the Russians have nearly six such warheads for each American silo; the Americans have only 1.2 for each Russian silo.

The Reagan administration's current proposal should not worry Mr Scowcroft on this count. It says that each side could have between 1,250 and 1,450 missiles, containing a total of 4,500 warheads, of which no more than 3,000 could be in land-based missiles. If this proposal were accepted, the superpowers' nuclear armouries might be broken down as shown in the right-hand pair of columns. The ratio of Russian hard-target killers to American silos would go nicely down, and the ratio of such American warheads to Russian silos up only slightly (still leaving the Russians with twice the American figure). This should make things a bit less unstable than now.

Why, then, Mr Scowcroft's worry?

Because the American proposal would also outlaw mobile missiles. Mr Scowcroft chaired a commission which recommended in 1983 that the United States should build a small, single-warhead missile that would be trundled about on a mobile launcher. The idea behind the Midgetman, as it was later nicknamed, was that missiles on the move would be invulnerable because it would be so hard to keep track of them; a disarming first strike would thus be almost impossible. The Midgetman is illegal under the SALT-2 treaty, though SALT-2 has expired and may soon be formally buried. But the new American proposal would kill Midgetman stone dead, and Mr Scowcroft does not want to see it go.

The other group of Reagan-is-soft critics is composed mainly of naval officers who are afraid that the brunt of the cuts would be borne by the American navy. The navy now has fewer missiles but many more warheads than the air force. If the cuts were divided proportionately between land-based and sea-launched missiles (which is approximately how the right-hand columns of our table have done it, and how the inter-service bargaining in Washington is likely to come out), the navy would lose several missile submarines.

Neither group of American critics seems to be addressing a third possibility: the idea that both superpowers might head towards single-warhead missile armouries, whether mobile or not. During the SALT-1 negotiations, in the early 1970s, the Russians proposed that both sides should forgo multiple-warhead missiles. It can be argued that such missiles are destabilising because each carries more warheads than are needed to destroy an enemy missile silo—thus putting a premium on making a first strike to knock out the other side's missiles while they are still sitting in their silos.

In London this month Colonel-General Nikolai Chervov, a high-ranking Russian arms-control official, said that the United States rejected the Soviet proposal during the SALT-1 talks. If stability is the goal of arms control, it might be a good idea to dust off this proposal.

country and was given a 15-year prison sentence in absentia.

Mr Mzali may have been a victim of his own eagerness. Mr Bourguiba did not like the systematic way Mr Mzali, his designated successor, had set about creating his own shadow presidential team before the job actually fell vacant.

It may have been Tunisia's faltering economy, as well as the wiliness of Mr Sfar, that finally sank Mr Mzali. Mr Sfar is thought to have handed Mr Bourguiba a report that spelt out the facts of plunging revenues from oil, phosphates and tourism, of low productivity and rising unemployment. Mr Mzali was even blamed for the appalling secondary-school examination results, which showed a pass rate of only 13%. He had insisted, perhaps as a sop to Islamic fundamentalists, on Arabic, rather than French, as the



Bourguiba's unfrail old age

language of instruction—even for mathematics and western philosophy.

Mr Sfar is a competent technocrat well-versed in finance. The World Bank and the International Monetary Fund, which may be needed by the Tunisians in the coming months, welcome his promotion. Western countries, which can count Tunisia their firmest friend in the Maghreb, will also be pleased.

The new prime minister's standing in his own country is less sure. He is almost part of the Bourguiba family. The president has treated him like a son since Mr Sfar's father, a close friend, died during Tunisia's independence struggle. If he gets Tunisia some extra money from abroad, fine. But until he does, the average Tunisian will probably see him as just another dull Bourguiba loyalist.

Whether he will succeed Mr Bourguiba is more than usually uncertain. The constitution now provides that the prime minister takes over if the president goes. But there is talk of a constitutional amendment to set up a vice-president; the

The hard-target inventory

	Now		After proposed cuts	
	America	Russia	America ³	Russia
Land-based warheads ¹	2110 (1650)	6250 (5840)	2350 (2000)	3000 (3000)
Sea-based warheads	5632 (0)	2520 (0)	2150 (0)	1500 (0)
Land-based missiles ²	1010	1398	900	1200
Sea-based missiles	640	944	550	250
	Russia under attack	America under attack	Russia under attack	America under attack
ratio of hard-target killers to hard targets	1.2:1	5.7:1	1.7:1	3.3:1

Note: 1. Numbers in parentheses denote hard-target killers.

2. Land-based missiles in their silos are hard targets.

3. Assuming that the United States has deployed 50 MX missiles and keeps 500 Minuteman-3 missiles in commission.

holder of that post might then succeed the president. And Mr Bourguiba's son, known as Habib Junior, has been rehabilitated after a tiff with his father. He could yet be the man to take over. An election

due in November, when the ruling party will win as handsomely as always, might provide more clues. All would-be successors, however, should bear in mind that the old man's bite is still sharp.

Peru

A perilous path between two abysses

The bloodbath in Peru's prisons last month diverted attention from the country's economic experiment, which is being closely watched by other Latin American debtors. Peru's democracy is on a knife's edge as it confronts both its creditors and its terrorists

Peru's 37-year-old president, Mr Alan Garcia, is the only leader of a sizeable South American country who calls himself a revolutionary and a socialist. Peru's foreign creditors may tremble at those words; but in fact the American Popular Revolutionary Alliance (APRA) which he leads is only a touch left-of-centre, and so far his radicalism has been directed only outwards. He claims to have limited Peru's debt-service payments to 10% of the value of its exports, and has refused to pay the International Monetary Fund all that Peru owes it.

Mr Garcia has combined this tough stand on foreign debt with an economic policy of domestic expansion and import substitution that has produced a modest boom over the past year. The IMF and Peru's commercial creditors do not like it, but Peruvians are not faulting him. Some 70% of them, if opinion polls are to be believed, approve of his handling of the presidency. No other Latin debtor has followed Peru's lead and taken unilateral action to reduce its debt payments; Mexico, indeed, after months of negotiation, seems about ready to sign a new deal with the IMF. The rest of Latin America is nonetheless watching carefully to see what happens to Mr Garcia.

For all his flamboyance, he is sincere in his claim to be a democrat. His European model is Mr Felipe Gonzalez, Spain's prime minister. But Peru's leader has had far more to contend with than Spain's: a worse economy; South America's biggest guerrilla insurgency; a fidgety army; and the continent's broadest-based Marxist movement, which polled a third of the vote in the latest election and led the poll in Lima.

The debtor's gamble

There are two threats to the centre-left line Mr Garcia has been pursuing. Peru could veer towards a more inward-looking, left-wing regime, either civilian or military, which might default on the debt altogether. Or a right-wing military coup could set out to crush the far-left terrorism that is gnawing at the country's de-

mocracy. Peru risks becoming the first country to return to military rule among the nine Latin American nations that went civilian during the past decade.

The 10% ceiling on the servicing of Peru's \$14-billion foreign debt always had leaks in it (some observers reckon that Peru has in fact been paying 20-30%), and some creditors have fared better than others. Mr Garcia has given priority to servicing loans from the World Bank and the Inter-American Development Bank, and has been careful to keep up payments on loans from the American government. But outside pressure on him to pay more than 10% has not yet been very effective (though it will increase if Peru cannot work out a deal by August 15th with the IMF about the \$180m it owes). Unpaid commercial banks can apply for seizure of Peruvian assets abroad, of which there are few. Not many have tried.

Peru is suffering from a shortage of new credits—although in practice not much new money was coming in even before the 10% ceiling was announced. It also faces the refusal of foreign governments to give it export-credit guarantees. Still, imports continue to gurggle in—a touch under \$2 billion in 1985. The government is, for balance-of-payments reasons, anxious to trim the import bill still further. Peru had a current-account deficit of some \$325m last year, which may rise to \$500m this year (in part because the prices of its main exports, oil and copper, have crashed). Peru has foreign-exchange reserves of around \$1.3 billion, so it can hold out for a while yet. But the pressure to restrain imports could further distort an economy already starved of them.

The effects of such distortions are not visible yet. In some respects, Peru's economy has improved over the past year. President Garcia's emergency economic package of a year ago devalued the currency, froze prices (but not all wages) and attacked imports with tariffs and some licensing. The immediate benefit was a fall in inflation. The monthly inflation rate had been running at 10% or so before the price freeze; it is now about

half that, though it seems to be on the way back up, along with the budget deficit. This was around 6% of GDP last year (down from 9% in the early years of the decade), but there are predictions that it may go as high as 11% this year.

The result has been modest growth—real GDP in 1985 was about 2% higher than in 1984, a rate of growth that may reach 4% this year—and a small consumer boom. The usually impoverished streets of Lima are teeming with relatively well-dressed people on shopping sprees.

The future looks grimmer. The anti-inflation policy being carried out by the prime minister and economics supremo, Mr Alva Castro, was threatened by a round of strikes in May, though they seem to have been settled without too much damage. Many people doubt, however, whether he can hold inflation down much longer. And the fossilisation of Peru's micro-economy (see box on next page) seems likely to ensure that the reserves Mr Garcia wants to divert from paying for debts to promoting growth will promote only price rises.

The hawks in his party, however, want to go even farther. Mr Castro seems to believe that the 10% limit is an ideal compromise between submission to the foreign banks and default. But some members of the ruling APRA party are pressing for an outright default and a full retreat to a siege economy. They suggest that the banks' response to the 10% limit shows that they are toothless.

The anti-bank lobby points out that during the past ten years (some of them under IMF tutelage), Peru's GDP per head fell to about \$870, in real terms roughly



And 70% of them approve

INTERNATIONAL

where it was in the mid-1960s. The pro-defaulters also say that because of IMF policies real wages had fallen by last year to little more than half their value in 1982, and that unemployment had increased by nearly half. They are out for blood.

Grisly path

So are the guerrillas. The past few weeks have seen an avalanche of attacks by the armed men of the far left. Offices of the ruling party were bombed this week. On June 7th, two bombs went off during a parade attended by President Garcia. After that, the train between the ancient Inca capital of Cuzco and the "lost city" of Machu Picchu was blown up, a possibly devastating blow to the country's tourist trade. The guerrillas' seizure on June 18th of three Peruvian prisons, and the army's crushing of the revolt, threatened to bring matters to a head.

The main terrorist group is Sendero Luminoso, "Shining Path", led by Mr Abimael Guzman, an ex-professor from the University of Ayacucho. Mr Guzman created a sort-of-Maoist party in 1970. He claimed that Peru was a "semi-feudal" country, and that—as in China—the peasants must drive the revolution. By 1980, Mr Guzman had formed his fighting organisation, which sabotages copper mines, launches bomb attacks against remote police stations, blows up power lines and, under the resulting cover of darkness, throws sticks of dynamite into offices, shops and restaurants in Lima.

Sendero also runs "liberated zones" in the mountains, in which policemen and local officials are tried and executed by "people's courts". It has press-ganged 12- and 13-year-old peasant children into its "People's Army". Some of the officers of this army are left-wing army deserters, loyal to the ideals of Peru's radical military dictatorship between 1968 and 1975. Sendero's true political affiliation, years after Mao's death, remains obscure. The Soviet embassy in Lima is one of the biggest in Latin America, and some 2,000 Peruvians are paid by the Russians to study in Moscow every year; but that is not proof of Russian backing for Sendero.

So far, about 8,000 people have been killed in the guerrilla war. Sendero, which has around 2,000 fighting men, is the biggest guerrilla group, but it is not alone. An urban group called the Tupac Amaru Revolutionary Movement (named, like Uruguay's Tupamaros, after Peru's legendary Indian rebel) seems to be gaining adherents on campuses, but has no more than a few hundred. A third group is called Pukallacta—Red Flag. Tupac Amaru makes a point of not killing "innocents". Sendero has no such inhibitions: it has butchered whole Indian communities for failing to co-operate.

Why bankers should think small

Because two-fifths of Latin America's 400m people are younger than 18, demographers say it will need 80m new jobs in the next 20 years. Since most of its existing workplaces are uneconomically overmanned, the best way to make these jobs will be the fastest possible creation of perhaps 10m new businesses, at first very small ones. Those worried about the fate of Latin American debtors ought to examine why over-big government in such countries ruins all economic progress, by making the creation of small businesses artificially slow.

A former governor of Peru's central bank, Mr Hernando de Soto, has investigated how long it takes to get permission to establish a small clothing factory in Peru. His answer was 289 days spent lobbying the bureaucracy, including meeting 24 requests for bribes. A licence to start a business in a more politically sensitive industry takes three-to-eight

years, so most of Lima's buses, taxis and retail food distribution are provided by "informals" who have not bothered to get permission from anybody.

Miss Nancy Truitt of New York's Tarrytown Group calculates that 60% of Lima's total workforce now operates illegally, and that nearly half of its recent new housing has been built in the informal way. In 1983 the Marxist mayor of the city urged citizens to build on public land illegally. An illegal house in the area now sells for \$450. The same house with secure title—because it has been entered in the notebook which records permitted development—can sell for \$18,000, and of course the entry in the notebook is usually sold.

Many people are urging that Europeans and North Americans should please lend more to defaulting Latin American countries, including to Peru, and without imposing sterner macroeconomic policies on them. Proper deduction: freer microeconomic policies are really more important.

Perhaps henceforth bankers should say that their loans will go only to "bankable" countries: defined as countries that allow all small businesses, without any licensing system by corrupt officials, to secure and transfer property rights. Until small businesses can do so, credit comes to the informals only at usurious interest rates; long-term contracts are impossible; the informals cannot insure or get limited liability; small businesses are daily liable to enforced closure unless they pay more bribes. The result—under any over-big government—is a Peru fit for public officials to prosper in, but nobody else.



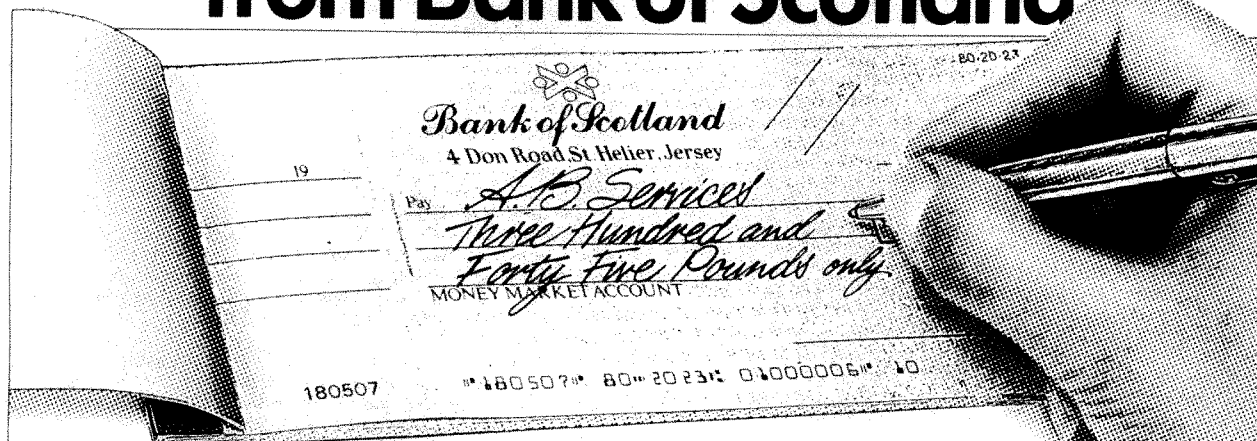
The ruling party is Sendero's main target. Until the latest offensive, Mr Garcia had hoped that Sendero would lay down arms when a left-leaning government took power. At first he reined back the army, which was waging an increasingly dirty war against the guerrillas. Mass graves of up to 50 people have been found, and the army-backed "self-defence committees" of Indian peasants were none too scrupulous when hunting down guerrillas: a group of eight journalists was bludgeoned to death in 1982. Mr Garcia put a stop to such atrocities.

The army responded with a policy of "crossed arms"—going on the defensive and allowing Sendero to regroup. The spate of attacks this year made Mr Garcia think again. He imposed a 1am-5am curfew on Lima, and gave the soldiers sole charge of security in the city. The hazards of this approach became obvious during the prison mutinies, when the Republican Guard killed up to 350 mutineers, among

them at least 100 Senderists who had already surrendered. The government's honour was saved by the resignation of the minister of justice, Mr Luis Gonzalez, and the dismissal of the head of the Republican Guard.

But many soldiers still favour a "Chilean" solution to terrorism—a wide-ranging round-up and execution of suspected guerrillas and their sympathisers. President Garcia's recent long talks with the minister of war, General Flores Torres, and his decision to cancel a visit to Europe last month, underline his fear of a coup. The resignation of the cabinet on July 15th—an annual event that is usually a formality—may this year represent real trouble in the government, caused by the handling of the prison mutinies. Few Peruvians will bet on Mr Garcia surviving as president until his term ends in 1990. If he goes, Latin America's other young democracies will be looking nervously over their shoulders at their armies.

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"If our nascent and fragile democratic institutions are denied a strong economic underpinning they will certainly give way to tyranny." — G. W. H. Relly

Abridgement of the annual statement by Mr G. W. H. Relly, Chairman of Anglo American Corporation of South Africa Limited.

Attributable earnings of the Corporation, excluding retained earnings of associates, increased by 35 per cent to R813 million, or 356 cents a share, in the year to March 31 1986. Equity-accounted earnings increased similarly to R1 194 million, or 523 cents a share. These results are primarily the outcome of substantial increases in earnings from our investments in gold, diamonds, coal, platinum and other minerals which, with their strong export bias, more than offset the effects of the recession on certain of our industrial interests. The total dividend of the Corporation amounted to 180 cents a share, an improvement of 33 per cent on the previous year.

Political developments

The continuing turmoil in our society has had - as many participants intended that it should have - a significant adverse effect upon South Africa's fortunes, and we are all the poorer for that. Yet the process of change has continued. The State President has kept to his commitment to press ahead with his reform programme, notably by repealing the pass laws and system of influx control. Repeal removes one of the principal pillars of apartheid, demolishes some of the barriers between richer urban insiders and poorer rural outsiders. They constitute a major step towards the abolition of statutory apartheid and the normalisation of our society.

The latest moves, however, have failed to impress large sections of the black South African community or of international opinion. In particular, many black leaders are refusing to participate in the interim political structures proposed by the government as a means of reaching the objective to which President Botha committed the National Party in his speech at the opening of Parliament, namely the negotiation with black leaders of a new constitution on the basis of an undivided Republic of South Africa, a universal franchise and one citizenship for all. Their refusal is to be explained partly by their bitterness at being excluded from the 1984 constitution, which accentuated feelings of suspicion, cynicism and impatience. Among the international community, where lack of trust and cynicism also prevail, appreciation of what the State President has achieved tends to be further inhibited by a simplistic view of our problems.

The over-riding reason, however, for the reluctance of black people to participate in the reform process, and of the international community to endorse it, is that it fails to take account of the now widespread belief that the right of political participation has to be extended to all South Africans before interim constitutional discussions or negotiations can get under way. This belief, which is supported by the principal institutions of South African business, applies as much to the proposed new structures of government at the local, regional and provincial level as at the national level. Whatever improvements are made to their form, these structures will still have problems in establishing their legitimacy, and hence in attracting the participation of credible black leaders, until political prisoners and proscribed organisations are free to participate in political affairs.

That course carries the risk of a further escalation of violence. But there is no course open to South Africa which does not involve risk. The least dangerous, I am convinced, is to confront the issue of politically motivated violence by opening up the opportunities for direct political action. There is encouraging evidence that if this were done, the majority of South Africans would wish to take part in the political process on a democratic basis, and would favour negotiation rather than violence.

A failure of nerve at this juncture will lead to a calamitous situation of political drift, with the economy sliding towards a state of siege as the initiative passes to the men of violence and the international pressures to change us or isolate us steadily increase.

It is difficult to avoid the conclusion that the piecemeal approach to reform, whatever virtues it may once have had in terms of electoral expediency, has reached the limit of its usefulness. I believe that the unbanning of political parties and the freeing of political prisoners will not be sufficient to get the constitutional negotiations properly under way, nor to minimise the threat of further sanctions. The residual elements of apartheid as well must be expunged from the statute book. I

would urge the government therefore publicly to commit itself - as it did with the pass laws - to the repeal of the Group Areas, Separate Amenities, Population Registration and Land Acts within a fixed time. Once that goal is in sight, negotiations could begin on the framework of a new constitution which would establish and guarantee the rights and freedoms of all people, irrespective of colour, according to the principles so admirably set down by the State President earlier this year.

Industrial relations

It is worth recalling here that when black trades unions became free to participate in the collective bargaining system they proceeded to represent their members' interests in what by-and-large were democratic structures and in an increasingly mature way. While the process by no means has been easy, the experience has shown that disparate groups can come together presenting very different proposals, and reach agreements acceptable to all parties. In essence, the political negotiations at the centre will require the same goodwill and desire for settlement.

Naturally, all this cannot proceed in an environment clouded by the restrictions imposed by a state of emergency. No one should doubt, however, that the attempt to replace apartheid with a functioning democracy, supported by an economic system capable of creating wealth on the requisite scale, will be extraordinarily difficult, not least because some of those who now practise violence for their own political ends will not easily be persuaded to forego violence - indeed their attempts to thwart evolutionary change are likely to grow in proportion to its success. In no way is this to excuse or condone the measures that have been taken: it is simply to point out that it is naive to suppose that the building blocks of the reform process can be put in place, or be given a fair chance to work without some protection against attack from extremists on both sides. It must be emphasised, however, that such protective measures will enjoy widespread support only when full democratic opportunities and the rule of law prevail.

While the will of the South African government and political parties will be the major factor in determining the success of this transition, the international community can make an important contribution to it. We must hope that western nations, in particular, will not allow themselves to be pressured into adopting punitive measures which would undermine both the transitional phase and the success of the post-apartheid society. The West as much as South Africa needs to take decisions that are soundly informed by a strategic vision of their long-term consequences. Any action taken now, primarily as an emotional response to the gravity of the situation here, is bound to be at the expense of freedom and justice in South Africa, for if our nascent and fragile democratic institutions are denied a strong economic underpinning they will certainly give way to tyranny.

Business community's concern

The interdependence of economics and politics in South Africa has never been more apparent, nor more unyielding. Even if we could resume a satisfactory rate of economic growth, it would prove short-lived in the absence of political stability; and I fear that the finest constitution in the world would fail unless the new South Africa could offer its citizens improving standards of living. The business community has found it necessary to concern itself increasingly in matters of public policy, to help create conditions in which economic and political progress can go hand-in-hand. That, surely, is a goal that unites us all.



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Head Office
44 Main Street,
Johannesburg
Republic of South Africa

London Office
40 Holborn Viaduct
London EC1P 1AJ
England

AMERICAN SURVEY

Nicaragua drags on, and on

The opera's not over till the fat lady sings, and the Senate has still to say yes to President Reagan's Nicaraguan policy. It is all but certain to do so. But the process may be neither quick nor painless.

The House of Representatives, worn down by the president's power and persistence, agreed last month to send \$100m of almost unfettered aid (\$70m of it military) to the contras seeking to overthrow the Nicaraguan government. The Senate, which had agreed to the aid in March, now has to go through the whole business all over again; the legislation will probably not reach the Senate floor until the first or second week of August. When it gets there, senators who are unhappy about Mr Reagan's Nicaraguan policy are determined to take their time over examining just where that policy might eventually lead the United States.

The debate will be longer (no time limit has been set) and more searching than it was in March, when the talk was limited to ten hours. Even then, the vote was by no means the clear bipartisan endorsement that the administration had sought. "We ground out a 53-47 vote," said senator Richard Lugar, who was persuaded against his first instincts to co-sponsor the legislation; 11 Republicans opposed the bill, 11 Democrats supported it. And this time, unlike last, the senators will be on television; an election is coming and a majority of Americans have shown they do not like the idea of giving aid to the contras.

Quite a lot has emerged since the senators last discussed the issue. Pro-contra senators will be able to point to more evidence of the nastiness of the Sandinist regime; only this month the International League for Human Rights, based in New York, issued a report on repression in Nicaragua—"not as conspicuous or as bloody as in other parts of Central America . . . but more insidious and systematic."

Anti-contras will dwell on the revelations about the relaxed way some of the contra leaders have been running their war from afar (see box on next page).

Senator Tom Harkin of Iowa, among others, is asking questions about last year's aid, much of which is still unaccounted for; he wants an investigation into stories of money-laundering and profit-skimming. Senator John Kerry of Massachusetts wants to investigate tales of contra drug-smuggling and gun-running.

More worrying to the senators than the contras' reputation is the Reagan administration's apparent commitment to changing the nature of the Nicaraguan regime, either by ejecting the Sandinists or by making them accept other parties in a coalition. Senator Alan Cranston of California has asked the Senate Foreign Relations Committee to find out whether, indeed, the United States is about to take control of a war to overthrow the Sandinist government. He, like others in Congress, wants to avoid a repetition of the Gulf of Tonkin resolution, the vote that led to America's full involvement in the Vietnam war. Mr Cranston's alarm was fired by stories last weekend in the

New York Times and *Washington Post* analysing America's role in the Nicaraguan war, the extent to which that war will, from now on, be run by the CIA, and the size and permanence of the American military presence in Honduras, the unofficial home to the main contra army.

The CIA was in overall charge of the guerrilla war from its inception in 1981 until 1984 when the House, disconcerted by the CIA-organised mining of Nicaraguan harbours, tried to exclude the agency from the operation altogether. Last year the House agreed that the CIA could provide the contras with intelligence information but still barred it from involvement in military operations, training the guerrillas and administering the aid programme. Last month, the House dropped nearly all these prohibitions.

The State Department, which had been given the job of distributing last year's non-lethal aid, had not been very successful in getting it to the right places or people. The contras, deprived of arms and CIA direction, had not been very successful in fighting their war. Now, once the aid bill is passed by Congress, the CIA will be fully back in business. And this time it will have a far larger guerrilla army than it had in those early years to equip, train and advise.

The American build-up in Honduras has mostly occurred without Congress

WASHINGTON, DC



The sentiments of the majority

AMERICAN SURVEY

taking notice. Airfields, radar stations, air intelligence installations and roads were built, ostensibly for military exercises. One exercise has slid into another and by now more than 40,000 American troops have been involved in the manoeuvres; at least 1,000 servicemen are stationed, on a rotating basis, at Palmerola air base, the centre of American military operations in Honduras.

The civilian centre of the operation is the American embassy at Tegucigalpa, presided over, until May 1985, by the formidable Mr John Negroponte. His successor, Mr John Ferch, was unceremoniously sacked last month after less than a year in office. The State Department, it is said, considered that Mr Ferch lacked the true pro-consular attributes to deal with

the Honduran leaders' ambivalent feelings about the unofficial war against the Sandinists.

Senators, with budget priorities on their minds, will be asking questions about the cost of the Honduran build-up, which is being paid for with Defence Department money. The use of CIA funds, now no longer specifically forbidden by the House, is a question for the congressional intelligence committees. Mr Fred Iklé, the under-secretary of defence in charge of policy, has confirmed that military spending on Nicaraguan-related issues will go far beyond the \$70m that most of the fuss, so far, has been about.

That specific money will go towards training the guerrillas—in Honduras,

Panama and the United States—and on providing arms, in particular the missiles needed to shoot down the Nicaraguan government's Soviet-supplied helicopter gunships. It will probably not be enough; the administration is expected to be back asking Congress for more, perhaps in less than nine months.

Opposition senators, in preparing for a strenuous losing battle, are sending a reminder to the administration that, despite Mr Reagan's impressive victory last month, congressional commitment to the Nicaraguan guerrilla war is not yet open-ended. Each succeeding stage of the operation will be monitored and arduously argued. Much legislative and executive time and spirit are still to be expended on Nicaragua.

Behind the hibiscus and the potted palms

MIAMI

Miami is becoming to the Nicaraguan war what Casablanca was to Europe in the second world war: an exotically sinister city where spies and soldiers operate in the shadows of legal commerce, conducting arms sales over cocktails. It is also the city that the contras have made their political and financial capital, and where many of them have put down family roots.

The planning of the war, and the absorption of American aid, go on behind an unmarked front door hidden away among dental clinics and insurance agencies in a quiet suburb called Kendall. The entrance to the headquarters of the United Nicaraguan Opposition, the political arm of the rebel army, is guarded only by potted palms and hibiscus bushes.

Rebel leaders had the grace to laugh at the cartoons of Mr Garry Trudeau who, in a recently published "Doonesbury" series, depicted the great fighters "doing lunch" with one another, water-skiing and demanding a higher percentage of the gross American aid. They complained only that the strips were exagger-

ated. Life in Miami is a comfortable exile.

As many as 70,000 Nicaraguans live in the city, dominating several neighbourhoods. They include Mr Adolfo Calero and Mr Arturo Cruz, two members of the triumvirate which ostensibly directs the insurgency (the third, Mr Alfonso Robelo, lives in Costa Rica). Six of the seven leaders of the UNO's advisory committee live either in Kendall or on Key Biscayne, where President Richard Nixon had his winter White House.

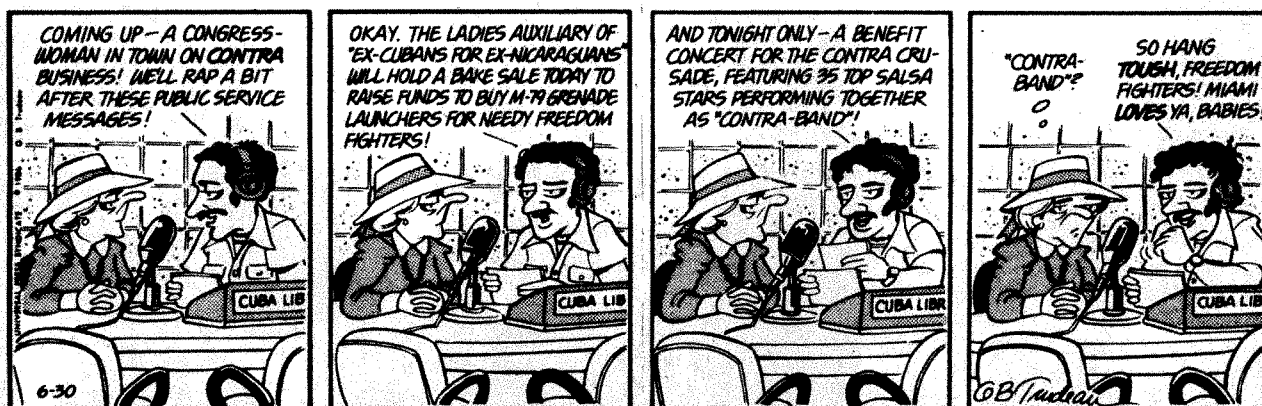
Battlefield commanders buy houses in Miami so that their families can pursue lives indistinguishable from those of their suburban neighbours. The widow of the late dictator, Anastasio Somoza, and their grown-up children also live in Miami. So, temporarily, do some of the young peasant-rebels who come to recuperate from their war wounds in a farmhouse turned into a hospice.

The Nicaraguan rebels have found strong allies among Miami's Cubans, who have linked opposition to the Sandinist regime with their opposition to Mr Fidel Castro's regime in Cuba. Nicara-

gua's government has captured two Cuban-born soldiers operating with the contras on the Nicaraguan-Honduran border. The hapless pair said they had been recruited on the streets of Miami by yet another Cuban with promises of high pay and adventure.

A stone-throwing crowd of Cubans has broken up a demonstration by opponents of Mr Reagan's Nicaraguan policy. A local radio station catering to a Cuban audience has raised \$19,000 by throwing a party for the "freedom fighters". A Howard Johnson motel near Miami airport offers special discount rates to contras in town "on business". And a neighbouring city's council directed its police department to send the guerrillas the guns it had captured from criminals; it was only the intervention of the federal government that prevented the police from packing up "Saturday night specials" and sending them off to contra staging areas in Central America. Ironically, the federal government cited the Neutrality Act, which makes it a crime to abet the overthrow of a foreign government from United States soil.

DOONESBURY



Foreign aid

From Africa to Central America

WASHINGTON, DC

A sweetener in the contra aid package was the \$300m of extra aid to be divided between Guatemala, Costa Rica, El Salvador and Honduras. Congressmen thought this a splendid idea, ignoring for the moment that the money was to be deducted from other foreign-aid accounts. The administration has its eye on African famine relief and the Food for Peace programme.

Since African countries survived this year without widespread famine, the famine-relief programme has \$225m in hand. The administration thinks this is handy for unspecified, and incontestably political, aid for Central America. Others argue that it might be wiser to hold on to the money until it is known whether the African crisis that did not strike this year definitely will not strike next; Ethiopia, for instance, is threatened by an unusually severe plague of locusts. Others again, particularly senators from the farm states, see the plan as a dastardly blow against American farmers anxious to dispose of their surplus produce.

Politics have rubbed a couple of other sores in America's aid programme for Africa. A rude Zimbabwean minister, Mr David Kariamazira, disrupted a Fourth of July reception at the American embassy in Harare by attacking America's policy towards South Africa and Libya. Mr Jimmy Carter, who was at the reception, walked out; the State Department, fiercer about such slights than it used to be, decided that it would give no more aid to Zimbabwe until the government at least apologised. This has cost Zimbabwe two big projects, for a family-planning programme and for agricultural development, together worth \$13.5m.

The more damaging break has been with Sudan, which last year received American aid worth \$450m, more than any other African country except Egypt. Relations between America and Sudan, which have been uneasy since the overthrow of President Numeiri in 1985, came to a head this April when an employee at the American embassy in Khartoum was shot in the aftermath of the American raid on Libya. The Americans immediately brought most of their people home, saying that the Libyan presence in Khartoum made it too dangerous for them to stay. Mr Numeiri's successors had patched up relations with Libya, bringing peace to Sudan's frontier and getting some free oil into the bargain; the Ameri-

Mass-market master

PARIS

"Ugliness doesn't sell" was the motto of Raymond Loewy, the French-born industrial designer whose taste for neat, clean exteriors stamped the look of thousands of American products from Greyhound buses to soft-drink dispensers. He recast the "Lucky Strike" cigarette pack-



Loewy's streamlined look

et, designed the Postal Service's eagle and drew the logos for dozens of companies including Shell, Canada Dry and TWA. An American citizen since 1938, Loewy died on Bastille Day in Monaco at the age of 92.

Loewy wanted to give things that could not move "an impression of speed". The father of streamlining, he was among the first to hide office and household machinery in a smooth shell. This had a practical side: Loewy's copying machines and fridges fitted well into crowded city spaces.

In the 1930s he designed sleek engines for the Pennsylvania Railroad. His Studebaker Starliner in 1953 began a trend against extravagant car-bumpers and tail-fins. He won acclaim for his ideas for the interior of the celebrated Lever building in New York. In the 1960s he advised NASA on the interiors of its Skylab space capsules.

Not everybody liked Loewy's mass-market plainness. By the 1970s, many were looking for more expressive lines. Yet for almost 40 years the Loewy look dominated American consumer culture.

cans said they had to choose.

The Sudanese mission of the United States Agency for International Development has been cut from 35 to about five; many of the contractors have also gone. Most of the programmes have come to a halt, including a big communications project and the building of roads and bridges. A handful of emergency feeding programmes struggle on. Sudan, which can afford such losses even less than most, is being taught that American aid has its price.

Missouri

Faces for races

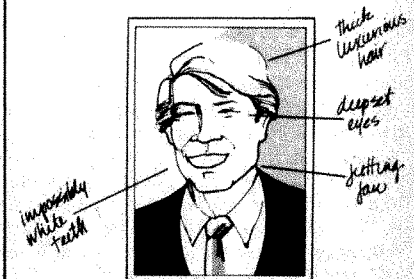
BLUE SPRINGS AND JEFFERSON CITY, MISSOURI

Christopher "Kit" Bond, ex-governor and would-be senator from Missouri, has the burnished, broad-shouldered good looks of a political hero from central casting. "Why must a US senator look like this?" asks a campaign letter from Miss Barbra Streisand, on behalf of Mr Bond's Democratic opponent. Along with a pitch for funds, the pamphlet includes a sketch of the identikit senator ("impossibly white teeth, thick luxurious hair, jutting jaw") which then dissolves into a portrait of 59-year-old Mrs Harriett Woods, lieutenant-governor of Missouri, who is making a virtue of her difference. The race for the seat left open by the impending retire-

ment of Mr Thomas Eagleton is one of the hottest in the country, as measured by money raised, and one of the closest as measured by opinion polls. It is also one of the handful on which will hinge control of the next Senate.

At the last reckoning by the Federal Election Commission, Mrs Woods ranked second among all Senate candidates (after Mr James Broyhill of North Carolina) in money collected from political action committees; Mr Bond ranked seventh. Both are actively soliciting support in Washington DC, New York, Texas, California, anywhere political moneybags gather. They need to; no candidate could raise the target of \$4m by tapping the 3m voters of Missouri. Money will be a telling factor in the race only if Mr Bond pulls a few million ahead, as many people

Why must a U.S. Senator look like this?



Turning Bond's assets to liabilities

AMERICAN SURVEY

think he will. "The Republicans in Washington would send a battleship out here if he needs it to win", said one observer. *USS Reagan* raised \$600,000 at a single lunch and is expected to float by again.

In the accounts that go to the FEC this week, both candidates report getting more than half their \$4m targets. But Mrs Woods is spending faster, partly on direct mailings like the Streisand letter, to keep her smaller givers giving. She has \$835,000 in the bank, compared with Mr Bond's \$1.4m.

Both Missouri candidates have the good fortune to be spared the expense of a primary election; neither has a serious challenger in the August vote. So their one-to-one contest will be longer than most. It has yet to catch fire, though sparks started flying last month when Mr Bond opened the television war and Mrs Woods responded with a three-part elegy on the family farm, noting that Mr Bond is a director of a foreclosing insurance company and, by implication, indifferent to the farmers' plight. It is not yet clear who was hurt more by the negative advertisements. But Mr Bond is running television commercials quoting local newspa-

per attacks on the Woods campaign. Mrs Woods has now replaced her Washington-based media consultant and her polling firm.

Mr Bond and Mrs Woods have both proved themselves vote-getters against the odds. Mrs Woods came within 2% of beating Senator John Danforth in 1982 and went on to be the only Democratic winner in five statewide races in 1984. Mr Bond, who started out as the state's youngest-ever governor in 1972, lost his re-election bid, and then bounced back to win again in 1980. His second term was more cautious and conservative than his first. He has been compared to Mr George Bush, as a preppie and a fairly liberal Republican who has remodelled himself for the Reagan age.

Mrs Woods has more to fear from a liberal label in a conservative, if Democratic, state, since she is the real thing: pro-abortion, pro-busing, pro-strict separation of church and state. She has already been attacked for accepting a contribution from Jane Fonda and has been picketed by anti-abortionists, who have selected her as one of their prime targets this year. Mrs Woods's main effort in this



Woods, the face of real liberalism

campaign must be to keep voters' attention on safer issues such as the farm crisis and the trade deficit. She probably has the support of most of the hardest-hit farmers, but so had the Democratic candidate for governor in 1984 and he lost. Mr Bond got an 87% endorsement vote from the state's traditionally Republican Farm Bureau in April. Both candidates disavow protectionism while calling for level playing fields and retaliation against unfair players, including the EEC.

A fiscal conservative is the thing to be in America these days, and both make claims to that title. Mrs Woods is a member of the Democratic Leadership Council of southerners and westerners who want to push the party rightwards, but this is mainly because of her links with Congressman Richard Gephardt, also of Missouri. Mr Bond goes the whole way and calls for a balanced-budget amendment and a line-item veto (to allow the president to remove particular items from spending measures without killing the entire bill). Missouri has both these laws and he can claim to have invoked them as governor to shift state finances from the red to the black. He also takes credit for not raising taxes in the process, omitting to mention that he actually asked for a tax increase and was turned down by the Democratic legislature.

Economic arguments will matter in the election, but the state of the economy will matter more. Apart from farming, Missouri is a microcosm of the country; as America goes, so will go Missouri. But Missourians like to see themselves as independent critters and independence consists partly of ignoring party labels and judging the senatorial hopefuls as personalities. The host of a smart get-together to raise money for Mr Bond on a bluff overlooking the state capitol claimed that

Eat your heartland out

Like a cake removed too soon from the oven, America is sagging in the middle. That is the view of the Democratic staff of the Joint Economic Committee of Congress, whose report, "The Bicoastal Economy", makes the claim that economic growth during the Reagan years has taken place disproportionately in California and on the east coast. While the coastal states have risen, the middle has suffered a relative collapse.

Since the "national" product of each state is not measured, the report bases its claim chiefly on personal income derived from employment or proprietorship. This indicator, which does not include interest, dividends and transfer payments, has historically tracked GNP pretty closely. In 1981-85, 14 of the top 16 growth states were either California or states on the east coast (Arizona and Alaska were the other two). Only two east-coast states—Rhode Island and South Carolina—were not in the top 16; they ranked 19th and 21st respectively. Oddly, and arbitrarily, hard-hit Washington and Oregon were excluded from the category of "coastal" states.

Since the 16 coastal states (as defined) contain 42% of America's population, but took nearly 70% of the real growth in personal income, the report reckons that real growth per person in the heartland in 1981-85 was not so hearty: only about a third of the growth on the coasts. The average annual real rate of growth in the 16 coastal states was 4%, higher than the

average postwar pre-Reagan rate of growth of GNP, which was 3.4%; but in the heartland, average growth was a mere 1.4%.

The report also says that the jobs pattern matched the growth: 58% of the 8m or more jobs created were in the lucky 16 coastal states, roughly 90% more job-growth per person than the rest of the country. And the unlucky

Regional growth rates, per year, 1981-85:

16 'coastal' states: 4.0%
34 'heartland' states: 1.4%



heartland suffered twice over by getting less than its share of the new jobs (42%) and only 30% of the growth in real income. Family-income statistics support the thesis of the excluded middle.

And the cause of all this? America's poor trade performance, says the report explicitly, particularly in the heartland activities of farming and manufacturing. Implicitly, by its choice of the years studied, the Reagan years, the report blames the Reagan administration. It will be ammunition, no doubt, in the Senate contests throughout the widely-defined heartland this year.

a third of the 90 guests, at \$250 a couple, were Democrats, although a diligent search turned up only one Democratic city councillor and one undecided lawyer. A few more Republicans turned up to hear Mrs Woods at a Chamber of Commerce lunch in a Kansas City suburb on the same day, but there the cost was \$6.50.

Mrs Woods is projecting herself as the "caring" candidate, sprinkling her remarks with phrases like "I'm a grassroots problem-solver" and "That's a people question." Mr Bond replies: "My opponent talks feel-good; I talk issues." If the election turns on personalities, Mrs Woods may have the edge. As one local put it, "His supporters like him; hers would swim the Missouri river for her."

Massachusetts

Shame all round

BOSTON

A political party has come to a pretty pass when it is relieved to learn that its only prospective candidate for governor had solicited campaign funds from a suspected mobster. Such are the straits of Massachusetts Republicans, who will have the names of two candidates printed on their primary ballot in September, both of whom have now withdrawn from the race in disarray. With all recognisable Republicans running for cover, party elders are casting about for somebody, anybody, to oppose its phantom candidates as a write-in. For the moment, humiliation-limitation has become the only party goal.

The Republican mug of the week is Mr Gregory Hyatt, who first came to public attention by leading a successful campaign for a cap on property taxes. After unannouncing his candidacy last winter, he was denounced by a former employer for bizarre behaviour, including appearing naked in his office; he then admitted submitting a nomination petition riddled with forged names. But he formally dropped out of the governor's race only when the *Boston Herald* reported on July 15th that the FBI had wiretapped damning conversations with a "family friend" who is just going to trial on extortion charges.

Republican leaders, who were uneasy about Mr Hyatt from the start, had engineered a coup against him at the party convention in April by nominating another candidate, the self-anointed conscience of the state legislature, Mr Royall Switzler. But last month Mr Switzler stepped down, confessing he had falsely claimed to be a former Green Beret in Vietnam. Republicans who have since refused appeals to step into the breach include the ex-Democratic ex-governor, Mr Edward King, and the former Senate

candidate, Mr Raymond Shamie. The party has virtually no reserves; after advertising for candidates for the state legislature, it managed to find sacrificial lambs for only a third of the seats.

The Republicans' trials could not have come at a better time for the Democrats. Governor Michael Dukakis has recently become embroiled in some political embarrassments of his own. Last month the principal of a public college was revealed to have sexually harassed male students and to have paid \$10,000 out of college funds to one victim as hush money. Mr Dukakis has ordered a belated inquiry, but has also opened another argument by challenging the appointment of a protégé of the Democratic Speaker of the state House of Representatives as state chancellor of education. In other times incidents like these might have suggested that there are chinks even in the formidable Dukakis armour. But with the Republicans stripped bare, Mr Dukakis remains the best dressed emperor in town.

The far right

Aliens go home

WASHINGTON, DC

In the dead of night on July 5th, along the Arizona-Mexico border, a private attempt was made to curb illegal immigration. Members of a group called Civilian Matériel Assistance, wearing camouflage uniforms and carrying AK-47 assault rifles, set up a booby trap into which walked 15

Mexicans, including women and children. The vigilantes opened fire, captured the Mexicans at gunpoint and held them for more than an hour before the Border Patrol arrived to take charge. According to one account, they wore hoods, which caused the Mexicans to think they were being abducted by members of the Ku Klux Klan.

Mr J. Hagan, CMA's regional director, insisted that the purpose of the patrols was merely to "observe, document and report" illegal border activity, including drug trafficking as well as unlawful crossings. The assistant federal lawyer in Tucson was quoted as saying that CMA members had contacted the FBI before setting out, and were warned not to cross the border. Federal immigration officers complained, but no charges were filed against members of the group for taking the law into their own hands. They now plan to expand their operations on the border.

CMA is said to have 5,000 members in the United States and in seven foreign countries. Two were killed when their helicopter was shot down in Nicaragua in 1984, and a former member has said that during his time with CMA he led combat missions inside Nicaragua in partnership with Miskito Indians. At present, CMA sends supplies of food and other non-military equipment to the contras and remains in daily contact with their leaders. The organisation also claims to have operations in Guatemala and Angola, and wants to get involved in Laos.

The weekend after the border incident, another group espousing radical political



The legal way to vet the border

AMERICAN SURVEY

solutions gathered in northern Idaho. Under the leadership of Richard Butler, who heads the Aryan Nations, and Robert Miles, a former grand dragon of the Michigan Ku Klux Klan, some 250 members of the White Resistance met at Hayden Lake to plan a trek to the north-west to establish a white homeland or, as Mr Miles puts it, "sanctuary". In the possibly benevolent environment of Washington, Idaho, Wyoming, Oregon and Montana, they hope to recoup their numbers, diminished of late by the death and imprisonment of many colleagues after a string of murders and armed robberies across the west. They hope to breed a race of supermen. There was much talk of Boers at the conference, as well as of the Green Mountain Boys of revolutionary Vermont, who would have been horrified to be included.

A favoured work of reference is a document called the Pace amendment, which seeks to establish racial purity by sending all blacks back to Africa and other minorities back to their countries of origin. Although members of the White Resistance fear and detest Jews most of all, they would allow European Jews to remain, while deporting Jews who trace their heredity directly to the Middle East. Members are encouraged to move into the territory quietly, and then overcome their enemies by out-breeding them.

Mr Miles proposes that each woman should aim to produce five to ten children and should engage as many husbands as that takes. He has begun to find out about group rates from removal firms, and has launched inquiries among estate agents. Before he begins to imagine that the north-west will welcome him, however, he might note the protests of about 1,000 citizens in Coeur d'Alene, not far from Hayden Lake; the declarations condemning the White Resistance collected from nearly 200 towns and cities; and a condemnation from every one of the governors of the five designated states.

Holidays

East, west, home's best

BOSTON

Americans are girding their quivering loins and flying off to Europe again. Two months without serious terrorist incidents and promotion campaigns by airlines and European governments have persuaded at least a fraction of the million-plus tourists who cancelled their trips this spring that Europe is worth the risk. TWA reports that its telephones are busier than usual, though mainly because of later-



The biggest pond many will cross this year

than-usual bookings. Pan Am talks about a steady if unspectacular recovery from the dog days of May. No airline expects to make up for the 25-30% dive in trans-Atlantic traffic after America's raid on Libya. But most are moderating their pessimism to project decreases of "only" 10-15% this year—except for Air France and Alitalia, which expect to lose up to 20% of their Atlantic custom.

The largest group of travellers who will not be lured back to Europe this season are package tourists and cruise passengers. The *Achille Lauro* piracy last autumn set cruise lines looking for alternatives to the Mediterranean; they have since moved ships to the Caribbean, to Montreal and to Alaska. The Caribbean, always America's busiest cruise water, has profited most from Europe's troubles: the American Automobile Association (AAA) reports a 37% increase in Caribbean cruise bookings this summer. Diverted cruise ships are supplementing a tourist boom in Alaska which is enjoying some of the spillover from Vancouver's Expo, along with the rest of the Pacific north-west. Hawaii is another holiday magnet. Northwest Orient reports a 15-20% increase in flights to both Alaska and Honolulu; TWA's new flight from St Louis to Hawaii was sold out in June.

The AAA is predicting that 114m Americans will travel this summer, 95m of them (8% more than last year) by road. With petrol prices down, caravans and other recreational vehicles are in demand. It is estimated that travel spending in the three summer months may reach \$100 billion, 7% more than last year.

The US Travel Data Centre thinks overseas travel will drop by 20% and trips to

Canada and Mexico will increase by 10%. But even in normal times, Europe and the rest of the non-North American world account for a tiny proportion of American trips and travel dollars. Last year Americans spent \$275 billion on travel, all but \$17 billion in the United States. Two-thirds of Americans travelled at least 100 miles from home; but only 12.7m ventured across a sea, 6.4m of them to Europe. Overseas travellers have incomes double the national average; 60% of them travel for pleasure, 72% go their own way rather than on package tours and 90% are regulars on the tourist beat.

The main foreign destination for Americans is Canada: 12m went there last year (and 11m Canadians returned their visits, accounting for half of America's foreign tourists). The next most popular foreign place is Mexico, which attracted 3.5m visitors from the United States. Some 2.5m Mexican holiday-makers were counted coming the other way.

In Europe, America's preferred port of call is Britain: 40% of travelling Americans stopped there last year and spent 28% of a total European travel bill of \$6 billion. The British are also Europe's most frequent fliers to America: 860,000 paid a visit in 1985, more than from any other non-contiguous country except Japan. The British rank with the Irish and the Spanish as America's stingiest visitors (South Americans are the freest-spending), which is one reason why Britain's tourist-trade surplus with America is the world's biggest—\$1.2 billion last year, up 70% from the year before. For British Airways, which is running an Atlantic lottery until October, \$6m is a small price to pay to bring Americans back.

EUROPE

Too many Romans with a lean and hungry look

FROM OUR ROME CORRESPONDENT

Italy's search for a new government is making Italians wonder whether the three years of stable leadership under Mr Bettino Craxi were a mere interlude, a blip in the weary succession of unmemorable ministries since 1945. Mr Craxi himself brought down five governments in four years before he became prime minister and a convert to the idea of stability. He hopes that his countrymen have now acquired a taste for the sort of steadiness which he implies he alone, nowadays, can provide. His Socialist party is determined to block the attempt of the Christian Democratic party to replace him as prime minister with Mr Giulio Andreotti, or anybody else. It is nothing personal, say the Socialists, but they want Mr Craxi's successor to be Mr Craxi, not a Christian Democrat.

Mr Andreotti was asked by President Francesco Cossiga to form a new government on July 10th, two weeks after Mr Craxi's government lost a parliamentary vote of confidence. Mr Craxi and his fellow-Socialists had apparently reckoned that, having first entrusted an "exploratory" mandate to the 78-year-old senate leader, Mr Amintore Fanfani, the president would invite Mr Craxi to carry on. A number of leading Socialists have even reproached Mr Cossiga—who, because of his office, is supposed to be above party politics—of having favoured the Christian Democratic party, which he once represented as prime minister.

The grumbles are part of the bickering which, like scenes from an all-too-famil-

iar film, have filled television screens for the past three weeks. As consultation follows consultation, and party leaders are obliged to reel out ritual statements to waiting newsmen in the heat of a Roman summer, many Italians recall that this is how things so often were in the days when governments lasted an average of 10½ months. Indeed, the reappearance of Mr Andreotti, already five times prime minister, whose 40-year political career sums up much of what is both right and wrong about the 40 years in which the Christian Democrats have dominated Italian politics, reinforces the feeling of having seen it all before. Both for its firm style and its unusually long life, Mr Craxi's government did seem to have changed the old rules. Was it an illusion?

Mr Craxi never minded being called a *decisionista*. In a country where mediation and compromise had become the norm in politics, he brought a new firmness to government. He displayed it—indeed brandished it—by forcing through a reduction of the *scala mobile*, Italy's version of the disastrous system which links wage increases to price rises. When the Communist party rashly decided to call a referendum on the issue last year, the Communists' defeat became Mr Craxi's personal triumph.

He was also lucky. The change in the *scala mobile* helped to bring inflation down from 15% in 1983 to barely 6% now, but so did cheaper oil and a falling dollar. The general American-led boom in the western world helped Italy's impressive recovery under Mr Craxi. The Milan stock exchange took off. Mr Craxi could convincingly claim to represent a new and more modern country. With Mr Andreotti as his foreign minister, even though the latter's policy on Arab issues sometimes made Jesuits look like clumpers, Mr Craxi's Italy counted for rather more in the world.

The continuity of the past three years also made it easier to push through important legislation. The interior minister, Mr Oscar Luigi Scalfaro, signed two treaties with the United States which have

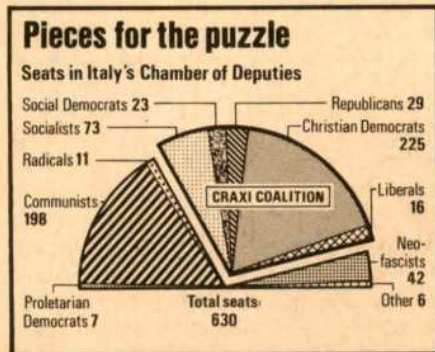


It's our turn, say Andreotti and de Mita

opened the way for more co-operation against organised crime and international terrorism. The justice minister, Mr Mino Martinazzoli, helped the magistrates in southern Italy who have brought hundreds of local Mafia members to trial. Backed by Mr Craxi, the finance minister, Mr Bruno Visentini, was able to brave the opposition of a million tradesmen and shopkeepers, and pass legislation aimed at curbing tax evasion.

Mr Craxi wavered only in the task of reducing Italy's huge public-sector deficit and national debt. Those are things that would daunt anybody. But, weakened by rivalries in his five-party coalition, Mr Craxi lately seemed to lose much of his earlier crispness. He appeared to be concentrating more on the coming fight with the Christian Democrats' leader, Mr Ciriaco de Mita, who wanted his party to reclaim the prime ministership. Now the fight is on.

Since his resignation, Mr Craxi has been uncharacteristically quiet. Is it the quietness that comes from confidence? Mr Craxi could still be the arbiter of any future government. Without the Socialist party's 73 seats in the 630-member Chamber of Deputies, the 225 Christian Democrats have no hope of mustering a majority in the current parliament: the three smaller partners in the coalition, the Republicans, Liberals and Social Democrats, have made it clear that they will not



EUROPE

join a new government which leaves out the Socialists.

So Mr Andreotti's chances of putting together a government to see Italy through to the next general election, to be held by June 1988 at the latest, do not exactly gleam. The Christian Democrats, as the largest party in parliament, claim they have a right to the prime minister's office. True to style, Mr Craxi has responded to challenge by counter-challenge. He has insisted that he should still be prime minister, and has rejected the idea that he should promise to hand over the job after the next election.

With the contenders from both sides squaring their shoulders, an early election is looking likelier than ever. Even Mr Andreotti's conciliatory attitude towards the Communists—whose delegation was the first to be received during this week's

consultations—seems aimed more at scoring political points than at finding a way out of the apparent impasse.

None of the major parties, however, is openly asking for an early election. Mr Craxi is now wary of the opinion polls. In one poll published by *L'Espresso* before the regional election in Sicily last month, Mr Craxi was chosen by 66% of those asked as the man most suited to be prime minister; only 22% favoured the proposed alternative, Mr de Mita. But nothing much changed in Sicily: the voters once again disappointed Mr Craxi and his party, who consistently do better in the opinion polls than in real elections. The Republican party's leader, Mr Giovanni Spadolini, reminded an interviewer recently that Italy's last four general elections, "though all four were early elections, solved none of our problems".

Spain

Basquing in defeat

FROM OUR SPAIN CORRESPONDENT

The bomb that exploded in Madrid on July 14th, killing nine trainee Civil Guards and injuring many others, was Spain's worst act of terrorism in 12 years. Its timing—one day before the opening of Spain's newly elected parliament—suggested yet another attempt by the Basque separatist group ETA to cast a shadow over Spanish democracy. The deaths also provided a grim illustration of the destructive mood that has gripped Basque politics since last month's election.

The bomb went off two days after the deportation to Gabon of an ETA leader,

Mr Domingo Iturbe, who had been arrested in France earlier this year. Several ETA men have also been arrested in Spain during the past few months. But the terrorists have been strengthened by the advance of their political wing, Herri Batasuna, which won five seats in the election, three more than in 1982.

Herri Batasuna boycotts both the national parliament and the Basque regional parliament, although it sits on municipal councils in the Basque country, Euskadi. Some of its members privately favour an end to the boycott of the

regional parliament where, they think, they could wield a lot of influence—especially if a split developed in the moderate Nationalist party, which controls the Basque administration.

The Nationalists have been at each other's throats since their party won only six seats in June, two fewer than in the previous parliament. The rebels are led by Mr Carlos Garaicoechea, who led the regional government until 1984. The unpronounceable Mr Garaicoechea would like to reduce the powers of the Nationalists' president, Mr Xabier Arzalluz, who carries more weight in the party than the leader of the regional administration, Mr José Antonio Ardanza.

Mr Garaicoechea also opposes the party's commitment to preserve the tax-raising powers traditionally enjoyed by each of Euskadi's three provinces. In the idiosyncratic world of Basque politics, this is a hot issue, and led to the passing of a law in the Basque parliament which carved out the running of local affairs between the regional and provincial administrations. The law is now before Spain's constitutional court.

A vote in the party's governing council on July 12th showed Mr Garaicoechea to be in a minority. But if the court rules against the law he may well try to force a change of leadership, or else leave the party altogether, taking with him enough members of the regional parliament to bring down Mr Ardanza. Moderate Basques fear a split would mean yet more support for Herri Batasuna.

There is a growing feeling that if the Nationalist party is to survive it must do something about its stolid look. A 35-year-old deputy, Mr Jon Gangoi, will be its spokesman in the Madrid parliament. Another up-and-coming Nationalist is Mr José Mari Gorordo, the 38-year-old head of Euskadi's television network. A brisk economist and a player of *fronton*, the fast ball-game Basques play against the facades of churches, Mr Gorordo has until now kept out of the party's quarrel, which he describes as "pathetic". "We must sort out our internal problems," he says. "The disintegration of our party would be a disaster for Euskadi."

France

Happy Bastille Day, prime minister

FROM OUR PARIS CORRESPONDENT

President Mitterrand's poisoned gift for the prime minister on July 14th was beautifully timed and elegantly wrapped. A day on which French military equipment made by state-owned companies

Does this make ETA happy?



Ma siamo Svizzeri

FROM OUR SWITZERLAND CORRESPONDENT

LUGANO

When the voters of the Italian-speaking Swiss canton of Ticino recently turned down plans to create a post-graduate centre there, one of whose specialities would have been to study the region itself, it was the end of a dream for Ticino's highbrows. They had hoped to lure back some of the bright young Italian-speaking things who have to pursue their researches in French or German at universities elsewhere in Switzerland.

Until a generation ago, Ticino was desperately poor and anybody with an ounce of gumption fled—to return only when fame and fortune permitted. Francesco Borromini and Carlo Maderno, architects of Rome's Renaissance splendour, were Ticinese; so were the vintners who introduced wine-growing to California. But most of today's Ticinese think they can get along fine without special, and expensive, props.

For such a tiny linguistic minority (less than 5% of the Swiss population), the 280,000 Ticinese have remarkably few complexes. In all, 9% of Switzerland's people speak Italian as their first language, but that includes 270,000 Italian immigrants—with whom the Ticinese hate being confused—and the handful of inhabitants of four spectacularly beautiful mountain valleys in the next-door canton of Graubünden (Grigioni, in Italian), which has its own bewildering linguistic patchwork.

For the Germans and Swiss-Germans who flock over the St Gotthard pass to spend their holidays or build their retirement homes (but seldom to work) in a mythical *Süden*, Ticino means wine, song and sunshine, without the messiness they associate with real Mediterranean countries. In fact the Ticinese display much of the Swiss enthusiasm for hard work, and keep Zurich hours. Although they have little of the truculence of the French-speaking Swiss towards

the country's Swiss-German-speaking majority, they worry about the advance of Germanic dialects in local shops and tavernas. Several townships near Locarno now have a Swiss-German-speaking majority or close to it; the local authorities drew the line at the request for German-language schools.

There are really two Ticinos, separated by the pass of Monte Ceneri. The Ceneri pass is only 554 metres high, but it might just as easily be the Himalayas. It divides the north from the south of Europe. North of the Ceneri lies Alpine Ticino, all hard granite and rushing water, with mountain valleys so poor that the villages stand empty and dying; traditional metalworking industries have given way to fewer jobs in high-tech industries. South of the Ceneri, poplars and chestnut trees, soft lakes and stucco impart a flavour of Lombardy, the province in northern Italy with which the history of southern Ticino has always been intertwined.

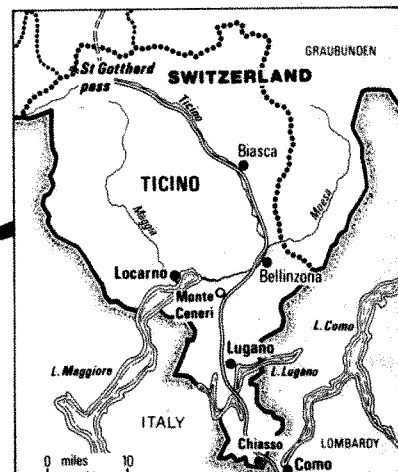
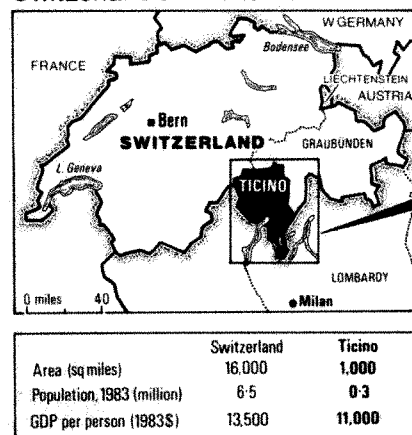
Milan, Italy's northern banking and industrial centre, is scarcely an hour's drive away from Lugano, and before

1914 the border hardly existed except on the map. Mussolini at first stirred up a good deal of sympathy in Ticino, but then his noisy irridentism began to worry the Ticinese, who thought his ideas for putting Italy in order quite good for their cousins but not for themselves.

Today's Ticinese are often thought of by other Swiss as the bright adolescents of the Confederation: charming, slightly mad-cap, but to be treated with indulgence. The occasional Ticino rule-bending usually elicits more smiles than censure, done as it is with elegance and a sense of restraint. (Ticinese like to point out that the main perpetrator of the biggest Swiss scandal of all, the *Crédit Suisse* affair in Chiasso in 1977, was a transplanted Swiss-German.)

In the name of linguistic plurality, the Swiss federal government has given generous support to Ticino's radio and television service (generally considered of higher quality than the German-language services). *Televisione Svizzera Italiana* has over 300,000 faithful viewers. It used to have almost 1m in the halcyon days before the Italian government, for reasons that have never been quite clear, closed down the relay stations that made it visible as far south as Rome.

Switzerland's Mediterranean



was to be seen rolling splendidly down the Champs Elysées was perfect for the president's announcement that, in his view, Mr Jacques Chirac's draft decree on privatisation would not protect France's national interests.

Mr Mitterrand is high in the polls, while Mr Chirac is limping a bit. The conservative government's plans for privatisation do not excite much popular feeling either way. By delaying these plans somewhat, which is probably all that Mr Mitterrand will succeed in doing, the president costs himself little and gives mischievous encouragement to those in Mr Chirac's slender parliamentary majority who like to complain that his government is moving too slowly to put its

campaign promises into practice.

By refusing to sign the draft decree as it stands, the president was insisting on his constitutional rights. He had earlier warned the prime minister of his reservations. That the president's objections to the government's proposed methods of privatisation were thinner than a share certificate was little help to Mr Chirac. The prime minister, it seemed, had an unpleasant choice: to make the row worse, or withdraw the decree.

A way out suggested itself when the two men spoke by telephone later on Bastille Day. Mr Chirac might care to submit the detailed privatisation plans to parliament as a normal bill. If, after proper debate, the bill was passed un-

changed, the president would naturally sign it. The price for this compromise is that the prime minister has had to acknowledge as a matter of political fact and not just constitutional theory the president's power to block decrees.

Re-routing the privatisation measure through parliament adds to an already heavily loaded summer schedule. The government had been hoping to have the decree signed this week, enabling it to begin replacing bosses in state-owned companies. The first sale was planned for the autumn. This schedule may now slip, although Mr Chirac has shown that he can drive parliament hard when he wants to.

The prime minister rightly waved away Mr Mitterrand's technical quibbles in his

television speech on July 16th. Having abandoned any objections of principle he might have had to privatisation, the president has had to think up tactical obstructions. He helped himself to the advice of the Council of State, which held, delphically, that privatisations should "preserve national independence".

The government has set 15% as the biggest share a foreigner can buy in French state-owned companies without special permission from the minister of finance. Mr Mitterrand suggested that this limit should be absolute, not discretionary. He also complained that the arrangement for a French equivalent of

Britain's "golden share"—retained by the government, to prevent companies from falling into wrong hands—would last for only five years. To meet some of the president's objections, the government was changing the decree until the last moment before the cabinet meeting on July 16th. The five-year time-limit was removed. Rules to ensure the independence of the commission that will set offering prices were tightened.

Most French people will sensibly not start judging Mr Chirac's privatisation plans until after their summer holidays are over, and the first sales have begun. Until then, Mr Chirac is unlikely to

improve his standing by technical-sounding arguments, especially with a president who wraps himself in the flag and presents himself as champion of the sovereignty of parliament.

World communism

It won't come again

The days of communist jamborees with delegates assembling from all over the world may well be gone for ever. The Comintern and the Cominform are dead. Even the idea of a more relaxed interna-

Fair game?

In an old continent old customs die hard, but Europe's hunters are having to adjust to two revolutions. The hunters' biggest problem—the dwindling stocks of birds and animals to hunt—started with the industrial revolution: the countryside and its fauna have taken a battering from factories, modern farming, and the advance of cities and roads. Now the "green revolution" has begun to put pressure on the hunters themselves. This month, campaigners for the abolition of blood sports in Italy handed in a petition signed by 865,000 people, probably enough to force a referendum on the issue early next year. Are Europe's hunters an endangered species?

Not exactly. Hunters have an instinct for survival, at least their own. They are a well-organised and well-connected lobby, both nationally and, through the Brussels-based Fédération des Associations de Chasseurs Européens (FACE), at the European level. Besides, there are still an awful lot of them about.

The 12 countries of the European Community alone, according to a pre-

liminary report by Mr Jean-Michel Pinet of the Institut National Agronomique in Paris, have some 6.5m hunters. Some Eurosemantics are necessary here. Mr Pinet's figure includes shooters and stalkers as well as the hare-and-hound people who, in rural English parlance, are the only people called "hunters". Those Britons who shoot birds—much the more numerous—are called "shots" or "guns". Many feuds have been started by shooters shooting foxes, an unpardonable crime in England.

On the wide-armed continental definition used by Mr Pinet and FACE, the number of hunters has been falling in recent years in the two countries, France and Italy, which together have more than half the EEC's hunters (and where hunting seems to be relatively cheap: Mr Pinet reckons the average hunter there spends roughly \$350 a year on the sport, compared with an average of about \$850 elsewhere in the Community). In most other EEC countries, however, there is little sign of a decline; in West Germany, says FACE, the number of hunters is

relatively small, but rising.

Even so, hunters are having to work harder to persuade people that they are a good thing. They have three main arguments:

- Hunting is part of Europe's social fabric. All sorts of people do it, from the landowners who hold hunting parties on their estates to the farmers who shoot wild boar to protect their crops, and then sell the sought-after meat. In Britain, for example, it is not merely a sport for gentlemen who gallop after foxes ("the unspeakable in full pursuit of the uneatable", as Oscar Wilde put it). According to a report published in 1983, nearly three-quarters of Britain's 800,000 hunters are shooters and stalkers; of these, it seems, 59% are skilled or unskilled manual workers.

- Hunting means jobs. It is big business. Last year, according to the European Commission, the EEC's hunters (excluding those in Spain and Portugal) killed 80,000 tonnes of wild game, worth about 400m ecus (which now translates into roughly the same amount in dollars); the share of wild game in the EEC consumer's annual meat intake was about 0.5%. On Mr Pinet's reckoning, the Community's hunters spend about 3.3 billion ecus a year on their sport (most of it on licences, permits and equipment), with an extra 500m ecus going on the upkeep of perhaps 4.5m hunting dogs. Directly or indirectly—that is, including breeders, game-keepers, shopkeepers, gunsmiths and others—hunting may provide work for about 100,000 people in the Community.

- Hunters are nature's friends, not its enemy. Hunters and conservationists, the hunting lobby says, are natural allies, with a shared interest in protecting the places where wild things live. Mr Gerhard Frank, the president of the Deutscher Jagdschutz-Verband, claims that hunting has increasingly become "a form of applied nature conservation".

Maybe so. However, the hunters' spokesmen have a hard time convincing animal-lovers that they should work together with people who like killing the things. Nor is it always easy to persuade



Killing time

tional assembly of communists, held on looser reins by Moscow, now has a very remote chance of success. The 1969 Moscow conference of 75 communist parties and the 1976 meeting in East Berlin of 29 European parties—themselves faint echoes of the past—were probably the last of the kind.

All this is shown by the fate of Mr Mikhail Gorbachev's attempt to organise another big comrades' get-together. At last month's Polish party congress he persuaded Poland's General Jaruzelski to suggest an international meeting on the subject of peace. The reaction of the maverick Italian Communist party,

whose attendance would make or break the plan, broke it.

The Italian party spelt out the reasons for its refusal. Mr Antonio Rubbi, the party's spokesman on international affairs, argued that it made no sense to hold an international conference which would not be attended by the Chinese; and, despite the recent slight improvement in relations between Moscow and Peking, he thought it inconceivable that the Chinese would turn up. Anyway, Mr Rubbi added, it was not much use meeting when those present would not be able to agree with each other on such vital issues as Afghanistan and Kampuchea.

But Mr Rubbi's third objection was the biggest. Having paid tribute to recent changes in Russia, and to Mr Gorbachev's foreign-policy initiatives, the Italian spokesman went on to say that, if a conference was to be held, it should not be confined to communists but should include other left-wing western parties. West Germany's Social Democrats and Britain's Labour party are more important to the Italian Communists than a connection with communism, even in its Eurocommunist version.

The Italian veto is all the more telling in that General Jaruzelski's proposal, delivered in Mr Gorbachev's presence and with his obvious blessing, was so carefully worded. It suggested that communist parties "whatever their differences in strategy and tactics and however different their roads" should meet in the not-too-distant future for a discussion limited to "defending peace". It is not hard to see what was in General Jaruzelski's mind. Mr Gorbachev, unlike his predecessors, is not a public-relations drawback. His current peace offensive is attractive. Russia has stopped bullying West European communist parties and encouraging splinter groups if they disobey (in last month's Spanish election, General Lister's splinter party was told to rejoin the fold). In these circumstances, the Russians probably thought the proposal would slide easily through. The Italians stopped it.

Of course, Mr Gorbachev could still go ahead with a truncated conference which included some small, more or less irrelevant western parties. But the absence of the Chinese (and Japanese) parties would draw attention to one split. With the Italians boycotting the meeting, it would be hard for the French and Spanish parties to attend: a second great divide. Does Mr Gorbachev want a conference more or less confined to those who daren't say no?

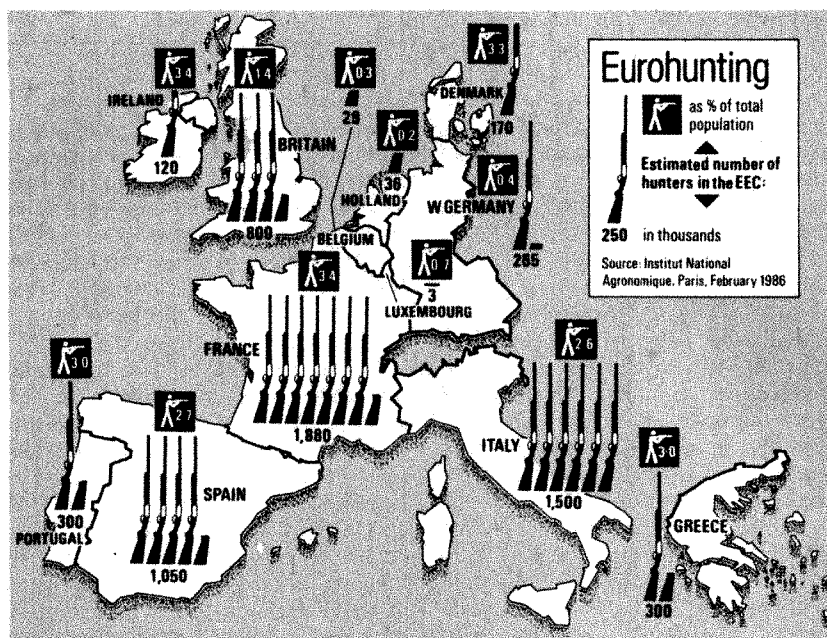
The Italian Communists are moving well beyond Palmiro Togliatti's once-heretical "polycentrist" communism. They now deny the very concept of a communist family. For those in the Kremlin who remember Stalin's time, when all communist parties responded obediently to every twist in Soviet policy, the comparison must be unbearable.

West Germany

Taking from the rich

FROM OUR BONN CORRESPONDENT

Every attempt in West Germany to draw up clear rules about who can give what political donation to whom seems to open as many loopholes at it closes. On July 14th, West Germany's constitutional



the hunters themselves to behave more responsibly. Hunting organisations have made a start by introducing mandatory tests for people who want to obtain a hunting licence for the first time. Would-be hunters now have to take these tests in most EEC countries (Britain and Ireland are exceptions).

But just as hunting has a long tradition in Europe, so do bad hunting habits. The European Commission has opened legal proceedings against seven EEC countries for failing to implement properly a 1979 directive on the protection of wild birds. Members of the European Parliament have drawn attention to such malpractices as shooting, snaring and netting birds out of season and the continued hunting of protected species. Pâtés made with lark and thrush are among their pet hates.

It is not by chance that anti-hunting voices are being heard loudest in Italy. According to a survey commissioned by *L'Espresso*, one of the promoters of the anti-hunting referendum, 73% of Italians would vote in favour of abolishing

blood sports.

In most EEC countries, hunting rights are granted by the people who own land or have the use of it. Not so in Italy, where article 842 of the civil code permits anybody with a gun to hunt more or less as he or she pleases on private property and cultivated land (it was Mussolini who passed the law, to keep Italian men practised in the use of firearms). And Italy's 1.5m hunters do a lot of damage. There are not enough gamekeepers, and not enough protected areas, so even protected species are endangered. Certain regions—Tuscany and Lombardy are the main culprits—still allow bird-netting.

Nobody believes that hunting in Italy will be banned for good. If the referendum is held and won, the ban on shooting will almost certainly be a temporary one, until new hunting laws are introduced (and meantime poachers will prosper). But even some hunting enthusiasts believe that a shock for Italy's shooters will help to clean up habits which give hunting a bad name.

EUROPE

court overruled parts of the government's recent legislation on political contributions. The new law aimed to clean up the mess left behind by allegations that in the past political parties had received illicit contributions from the former Flick industrial group. The court then went on to set up its own guidelines for the size of tax-deductible political donations.

The court's decision was a minor victory for the ecologist Green party, which makes much of the fact that it is untainted by the Flick scandal (the party was not around at the time). The judges upheld a challenge brought by the Greens against the government's plan to allow companies to donate up to 0.2% of their annual sales to political parties free of tax. The Greens claimed this was unconstitutional, because it favoured the political involvement of rich companies.

The court only partly agreed with them. The chief justice, Mr Wolfgang Zeidler, explained that, although giving money to political parties did not offend the constitution, the way the law was framed violated "the citizen's right to an equal share in the power-making process". Instead, individuals or companies will be able to make political contributions of up to DM100,000 (\$45,000) a year free of tax.

The ruling will be incorporated into new legislation. Although the court's DM100,000 ceiling seems clear enough, much depends on the definition of what constitutes a company. For example, will big industrial groups be allowed to pay a series of DM100,000 contributions each year through each of their subsidiaries? It looks like more work ahead for lawyers.

But the widest loophole is formed by the court's decision not to do anything to alter the current system under which tax-free donations are made to research foundations. On the face of it, there seems nothing objectionable in non-profit research foundations qualifying for tax-free gifts from benefactors in industry or anywhere else. The trouble is that each of the three parties which have run West Germany during the past four decades is closely associated with such a research foundation. There have been allegations from time to time that some of these foundations have been used to channel money to the parties themselves.

The most recent allegation, made in the magazine *Der Spiegel*, concerns a foundation called the Friedrich-Ebert-Stiftung, which is closely associated with the opposition Social Democrats. The party's spokesman, Mr Wolfgang Clement, denies *Der Spiegel's* report that the Social Democrats used the foundation to launder money via a Swiss bank and a friendly organisation in Israel. Similar allegations have been made about other foundations

and organisations associated with the ruling centre-right parties.

The constitutional court in its wisdom has said that research foundations should keep a "proper" distance from political parties. But just what constitutes propriety seems to be left to politicians' consciences.

Holidays

Away goes Europe

FROM OUR BRUSSELS CORRESPONDENT

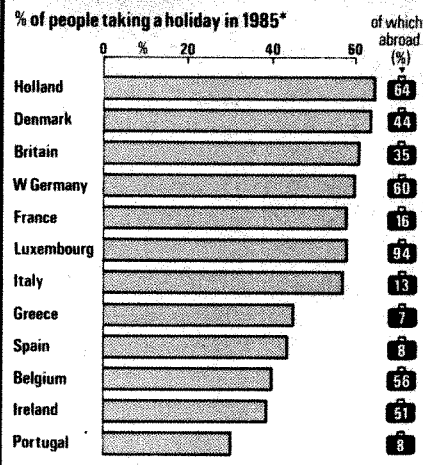
For motorists who have crawled behind convoys of Dutch caravans on their way to the Mediterranean, or on the winding roads of the Scottish highlands, it will come as no surprise: caravanning and camping are the Dutchman's favourite sort of holiday. While on vacation, other EEC citizens prefer a more fixed abode. According to a survey conducted for the European Commission, 31% of Dutch people who took holidays last year opted for caravans or tents. The French at 22% trailed them a distant second.

Holland also topped the chart for the percentage of its population that actually went on holiday last year, with 65% (see chart). More surprisingly, Belgium ranked with the less affluent members of the Community—Portugal, Ireland, Greece and Spain—where the majority did not take holidays.

According to the survey, 56% of the 250m adults in the EEC took at least one holiday (of four days or more away from home) in 1985. Of those who did not go away last year, nearly half said they could not afford it, while 22% said they preferred to stay at home anyway. Europeans seem undeterred by terrorism. Worries about their safety kept a mere 2% of Italians from travelling last year—or so the Italians say—and the figure was even

At their leisure

% of people taking a holiday in 1985*



* Aged 15 years and over, spending four or more days away from home
Source: EEC Commission

lower in the other 11 EEC countries.

Apart from differences in national habits, Europeans' holiday decisions are influenced by things like age, profession and the size of their family and of their income. Income matters most. In 1985, 85% of families of senior executives took holidays. For manual workers, retired people and farmers the proportion was 51%, 49% and 25% respectively.

The survey confirms that, like the British, other Europeans do like to be beside the seaside. The Greeks, 70% of whose holidays are taken by the beach, come first, followed by the Portuguese and Luxembourgers with 62% and the British and Italians with 58%. The Dutch, who go to the seaside for only 36% of their holidays, are different; presumably many of them prefer to pitch their tents and park their caravans well above sea-level.

If West European beaches are currently overcrowded, the survey shows who is to blame. Last year nearly two-thirds of EEC holiday-makers went away in July and August. Italians were the most gregarious. Britons and Luxembourgers spread their holidays most evenly throughout the year. Since southerners can find the sun at home, it is predictable that fewer people from the EEC's southern countries travelled abroad for their main holiday than did the northerners (see chart). Virtually all Luxembourgers who took holidays went abroad, and who could blame them: their country is landlocked and measures only 30 miles by 50 miles at its widest point.

The survey points to the growing phenomenon of multiple holiday-taking. Nearly half of the EEC's professional and executive classes took at least two holidays last year. In France, 27% of the population had a second vacation last year, compared with 21% in Britain and 17% in West Germany. Europeans, when they can afford it, do like to have fun.



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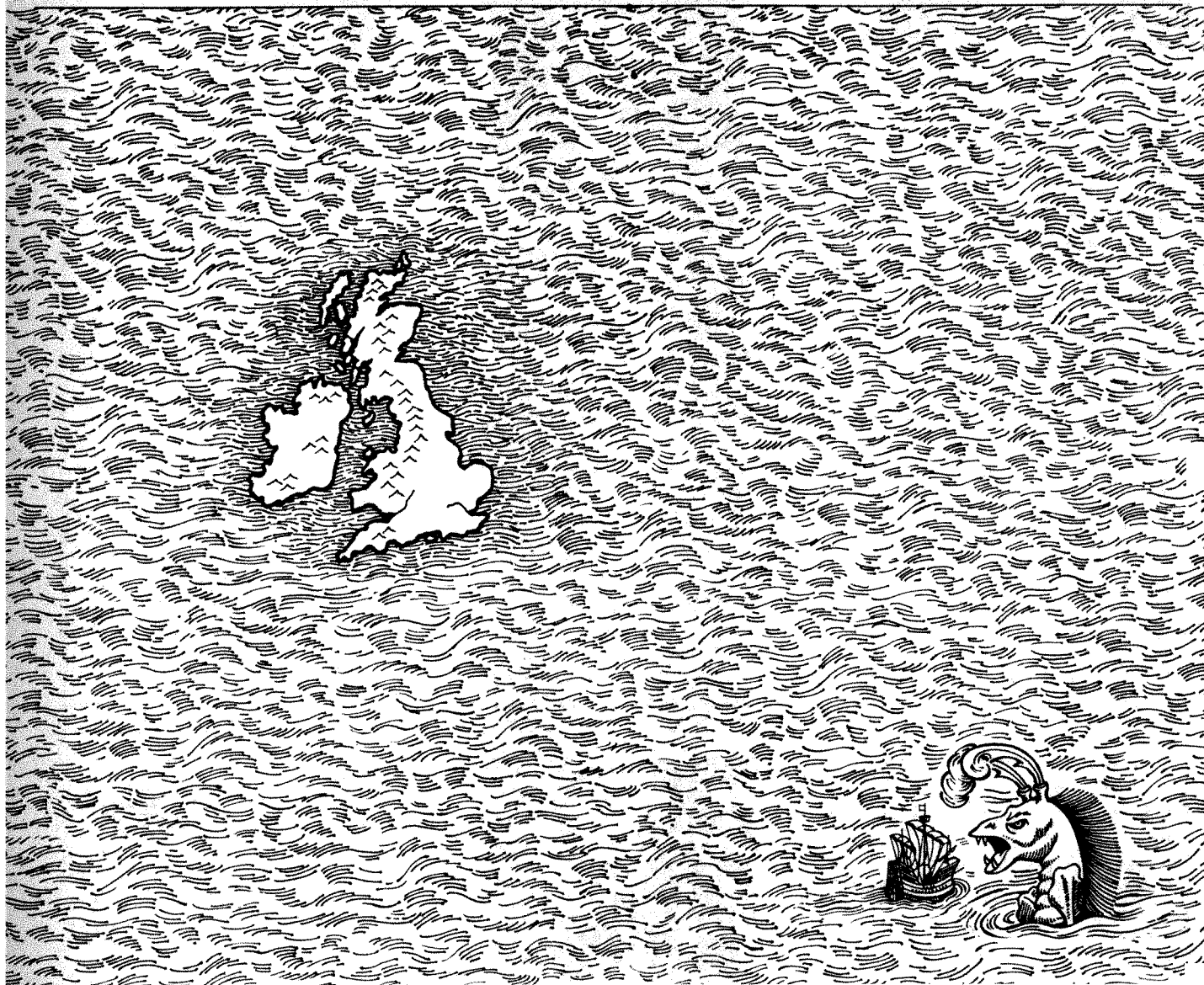
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BRITAIN

Backing into sanctions

The British government is now starting to face up to the probability that it will have to introduce sanctions against South Africa. During a Commons debate on a Labour party motion on Wednesday, the foreign secretary, Sir Geoffrey Howe, conceded that if his forthcoming mission to South Africa did not succeed, "I would regard agreement on further measures as likely to be necessary".

His careful phrasing indicates the reluctance which the government in general and Mrs Thatcher in particular feel at having to contemplate sanctions. It also shows their pessimism on the outcome of Sir Geoffrey's mission. He returned from his first round of talks with front-line African states deep in gloom.

The shadow foreign secretary, Mr Denis Healey, called for a wide range of sanctions, mainly financial and trade, and

proposed that western central banks should sell gold to force the price down. His demand for action was supported by the former Tory prime minister, Mr Edward Heath, who poured scorn on Sir Geoffrey's efforts and told his parliamentary colleagues that if they wished to deal with apartheid they would have to face up to the need for a naval blockade of South Africa. The alternative would be the "most ghastly bloodshed" in which the white government would be swept away.

The mass of the electorate still does not seem to share that concern. Most Tory members of Parliament say that their parliamentary postbag contains hardly any letters on the issue, and claim that many of their constituents are strongly against sanctions. They are irritated by threats by black African governments to withdraw from the Commonwealth and

by their action in pulling out of the Commonwealth Games.

However, Tory managers now see several dangers for the government. First, the whole issue is once again showing Mrs Thatcher in the harsh light which they have been so anxious to change. That will matter more if, at the same time, the continued rise in unemployment becomes a lively political issue again.

Second, they fear that the issue could lead to a break-up of the Commonwealth (but see page 19). The ultimate but most improbable horror would be a move by other Commonwealth countries to expel Britain. More probably, African and non-African members, including India and possibly Australia and Canada, would gang up against Britain. The Queen is said by some to be dissatisfied with Mrs Thatcher's intransigence and preparing to intervene directly with Commonwealth leaders during their forthcoming emergency conference in London.

Third, party managers fear that the Tories could suffer from internal bickering, though at present any parliamentary revolt against sanctions by Tory right-wingers, led by Mr Julian Amery, would

This sporting life

So much for the friendly games. One week before the opening of the 13th Commonwealth Games in Edinburgh, Nigeria, Uganda, Kenya, Tanzania, Ghana, Sierra Leone, Malaysia, the Bahamas and Papua New Guinea had all pulled out because of Britain's reluctance to impose sanctions on South Africa. Zambia, Zimbabwe, Botswana and India were thinking about quitting. Just as the boycott was gathering force, the Commonwealth Games Federation banned two South African-born athletes, Miss Zola Budd, a runner, and Miss Annette Cowley, a swimmer, from representing England in the competition. Some of the boycotters had said they found the inclusion of these two in the English team offensive. The federation swears its ban was made on legal grounds, and not in order to staunch the boycott. Nobody is convinced.

Miss Budd ran for Britain in the 1984 Los Angeles Olympics without causing official ripples because the Olympic eligibility rules are simple: "only citizens or nationals of a country may represent that country." Miss Budd is a British citizen.

But the Commonwealth Games rule dealing with eligibility is a legal minefield. Interpreting the words "domicile" and "resided" has proved particularly tricky.

The amateur bodies that govern the sports of the two athletes gave evidence months ago to the Commonwealth Games Council for England supporting the eligibility of their stars. The council, having taken legal advice, decided in late May that the girls could probably be included in the England team. To be quite sure, the council asked the federation to interpret its own rules. The federation was to decide on July 17th.

In the heat of the boycotting moment, the federation brought forward its decision to July 13th. Mr Sharad Rao, the federation's honorary legal adviser, was flown in from The Hague for an opinion on Sunday, after which the girls were declared non-starters. The council is furious that it was not shown the workings of the federation's mind before the ban was announced. It has asked for the records, to see whether the decision was made on legal grounds alone.



Nipped in the Budd

The Westland wound reopened

Just before members of Parliament leave Westminster for their long summer break, the House of Commons defence committee will publish its report on the Westland affair. In January this year, the row over whether an American or European consortium should be allowed to buy the ailing Westland helicopter company lost Mrs Thatcher two of her best senior cabinet ministers—first her defence secretary, Mr Michael Heseltine, and two weeks later her industry secretary, Mr Leon Brittan. The public row between the two rocked the cabinet. The deliberate leaking of a confidential letter from the solicitor-general, in a manner calculated to damage Mr Heseltine, impugned the integrity of Mrs Thatcher herself.

The defence committee will publish two reports. One, on the defence impli-

cations of the future of Westland, will deal with defence procurement and European industry's ability to compete with American technology. The other will be on the government's decision-making process and the leak. There will also be a 400-page volume of evidence.

Despite the fact that it is highly critical of the government, and by implication of Mrs Thatcher, the report was agreed by all ten members of the committee—seven Tories and three Labour. Mrs Thatcher herself did not appear. To have forced her to do so would have required a resolution of the whole House, and in her place the government fielded Sir Robert Armstrong, the urbane secretary of the cabinet, who irritated the MPs with his evasive and bland replies. He is likely to come in for severe criticism, as is Mr Bernard Ingham, the prime minister's

press secretary, who choreographed the leaking of the letter. Not only did the government refuse to allow Mr Ingham and the other officials directly concerned to appear before the committee, but Sir Robert insisted on maintaining the Whitehall fiction of anonymity by never mentioning officials' names. The report names them all.

The reports may further delay Mr Brittan's political rehabilitation. Mr Heseltine is likely to find that while his parliamentary colleagues endorse his view that European governments should co-operate more in defence industries, they criticise the way in which he campaigned against other ministers. How much damage will the reports do to Mrs Thatcher? If she feels obliged to defend her staff, the old controversy will be reopened. But the timing of publication will prevent parliamentary debate until the autumn. By that time, MPs may have other things to worry about.

be small and containable—probably no more than 20-30 rebels.

But the government appears to have done no detailed contingency planning for sanctions. It is thus unclear exactly what action it could take without legislation. It might be necessary to recall Parliament from its summer recess to pass a sanctions act similar to that used against Rhodesia 20 years ago.

There is probably only one way that Mrs Thatcher can now avoid a political reverse at home. President Botha must undertake to accept, before the Commonwealth gathering next month, Sir Geoffrey's minimum condition for not imposing sanctions: the release of Mr Nelson Mandela and other imprisoned African leaders, and the lifting of the ban on the African National Congress. As Mr Botha seems unlikely to oblige, Sir Geoffrey has been wise to prepare a space for Mrs Thatcher to reverse into.

Northern Ireland

The agreement frays a little

The peak of the annual season of Northern Irish Protestant marches has passed, leaving the Anglo-Irish agreement battered. The Irish foreign minister, Mr Peter Barry, described as "intolerable" a decision to allow a smallish group of Protestant marchers through a Roman Catholic district of the town of Portadown—a decision taken by the Royal Ulster Constabulary, faced with threats from extreme loyalist elements. Unionists hailed the concession as a victory for them and a defeat for the agreement.

Nationalists called it a provocative infringement of their rights. The police argued, with some reason, that the decision averted what could easily have turned into a serious riot.

Mr Barry's complaints were partly intended to soothe the feelings of the Social Democratic and Labour party. But he was also reflecting his own government's displeasure over some areas of the Anglo-Irish agreement, and in particular the performance of the Northern Ireland secretary, Mr Tom King. Mr King's recent actions have brought a string of complaints from Dublin. The Irish were aghast when he told a Belfast newspaper that the agreement might be changed in response to Unionist submissions, and they were furious when Mr King said he had received no representations from Dublin about Protestant parades. The Irish government said indignantly that the agreement was formally ratified between governments, and that it had made its views on marches known to Mr King in the strongest of terms.

Some nationalists believe Mr King is out of sympathy with the agreement and is single-handedly attempting to water it down to please the protesting Unionists. Certainly he is engaged in a delicate operation to draw at least some Unionists back into talks with the government. Significant though the contacts are, they have had to be surreptitious because all Unionist politicians have promised to boycott British ministers unless and until the Anglo-Irish agreement is suspended.

One of Mr King's aims is to split the Unionists. He wants to separate the Democratic Unionists and their leader, the Rev Ian Paisley, who have opted for outright confrontation with the authorities, from the more moderate Official

Unionists under Mr James Molyneux. Mr Molyneux insists that the agreement should be opposed only by lawful means. Mr Paisley has become increasingly militant. Last week he assembled 4,000 men in military formation in the middle of the



Summer time in Ulster

night in a sinister show of strength. Some of his troops wore masks and combat jackets. While Mr Paisley has called for Unionists to take to the streets, Mr Molyneux has been appealing for calm. So it may not be long before their pact collapses and the two parties return to their

Brides beware

British women may live with their boyfriends, bear babies out of wedlock and separate from their husbands. But they still love marriage, the institution that limits their job and income prospects more than men's

The royal wedding will be the sort of do that fairy tales are supposed to end with. Lots of British couples—or at least, lots of British girls—still long to plight their troth in Fergie style. Lots will. For in the past 20 years, the grand wedding has had something of a revival.

A survey conducted by *Brides* magazine in 1985 found that 88% of readers wanted to marry in church. Just over 70% planned to entertain between 50 and 100 guests at a reception after the ceremony. At 62% of receptions, the guests would be offered a sit-down meal (even more common in the North). And 75% of readers wanted to give a party in the evening too. *Brides's* 376,000 readers, aside from being the people who take their wedding seriously enough to buy a magazine about it, are predominantly skilled working class: two-thirds are from social classes C1 and C2.

These are the people who hold the Saturday-morning, tulle-and-confetti wedding most dear. Smart aristocrats still get married on a weekday at a London church and throw a pre-dinner party with a few speeches afterwards. The poshest weddings are brief, if expensive. But the average British wedding now costs £2,500, *Brides's* editor reckons—a far cry from the 1950s, when humble people would hold the reception at a local hotel offering "a sit-down lunch of soup, roast chicken and trifle at 6s 6d (less than £3 today) a head". The bill will probably be sent to the bride's dad, who still pays for more than 50% of British weddings. Only 23% are paid for by the happy couple, and a mere 16% shouldered by the groom's side.

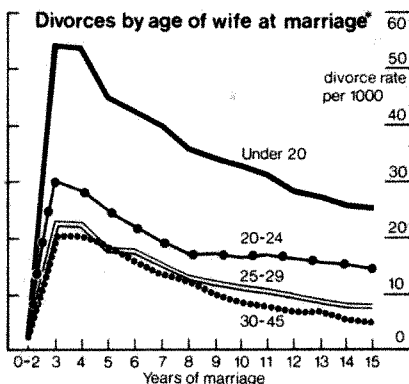
Perhaps it is because they are the excuse for a party that weddings have not gone out of fashion. For about a third of all couples who marry have been living together anyway. The proportion is lower for couples marrying for the first time, only one-fifth of whom have cohabited before their wedding day. But two-thirds of couples in which both partners are remarrying set out for the registry office from the same house. Civil ceremonies are three times as likely as church weddings to take place between couples who have lived together. That partly reflects the fact that more than 90% of remarriages take place at a registry office, rather than a church. But not entirely: only 10% of first marriages with religious ceremonies, but 39% of first marriages with civil ceremonies, are between couples who have previously cohabited.

Far fewer brides are pregnant. In 1974, 29% of babies conceived outside

marriage were born in wedlock (as are 34% of babies conceived by unmarried teenagers). The rest were either aborted, or born illegitimate. By 1984, only 16% of babies conceived before marriage (and 14% of those conceived by unmarried teenagers) were born to a husband and wife. But there had been a large rise in conceptions which ended in a birth outside marriage, registered by both parents. An unmarried mum (see right-hand chart) now tends to live with her baby's dad instead of marrying him.

Happy ever after

People clearly like weddings. Even among those whose marriages fail, many have a second try. For every 1,000 divorces in 1973, only 233 ended with neither husband nor wife remarrying; in 268 cases, both partners remarried (and in 287, only the husband did). These second marriages are not guaranteed to



Source: OPCS

last either: in 1971, just under 9% of all divorces in England and Wales took place between couples where one or both partners had previously been divorced. By 1984, that proportion had risen to 22%.

Divorce has recently risen steeply, reflecting not only an increasing disenchantment with married life, but a change in the law. In October 1984, it became easier for a mutually-loathing couple to split up after one year, instead of a minimum of three. That led to an 8% rise in the number of divorce decrees issued in 1985—and 72% of them went to women—an all-time high.

The seemingly inexorable rise in the divorce rate may slow down eventually, if couples continue to marry later. The average age of first marriage has risen from 24.6 years for men and 22.6 years for women in 1971 to 26 for men and 23.7 for women in 1985. Yet the age at which people marry and the likelihood of di-

vorces are clearly linked (see left-hand chart). Teenage marriages, which have by far the highest casualty rate, are dying out: only 14% of brides are now under 20, compared with over 30% in the 1960s—despite a rise in the number of teenagers.

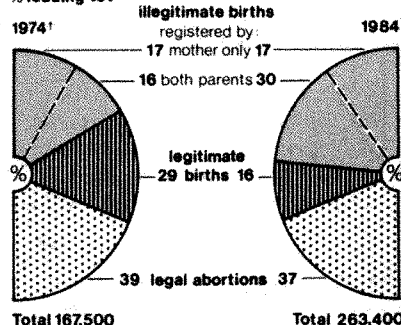
No wives need apply

Women used to stop work when they married; now they stop when they first have children. But lots of women change down a gear at work once they marry. A study of 53 newlywed couples carried out by the Marriage Research Centre in 1982 found that 38 of the wives had changed jobs around the time of marriage. Ten couples moved to a place convenient for their husband's work which forced the wife to give up her job. Although the couples paid lip service to domestic job-sharing, the women did more housework, even though, in the first years of marriage, most of their jobs had hours as long as their husbands'.

After marrying, women typically wait more than two years to start a family.

Conceptions outside marriage*

% leading to:



*England and Wales †Figures do not add to 100 because of rounding

The gap between marriage and first birth varies from 37 months for the wives of professional men and managers, to 18 months for the wives of unskilled manual workers. Most women return to work after their children are born. The gap between birth and return is becoming shorter. Those most likely to return are the highly educated, who have invested a lot in their own training, and the unskilled manual workers who cannot afford to bring up their families on one paypacket. Most mothers go back to less well-paid jobs.

Dropping down the labour market when they marry and out of it when they breed costs women dear. Mrs Heather Joshi, from the London School of Hygiene, suggests that being responsible for childcare costs a woman almost seven years in lost working time, but twice as many years of average annual earnings because she misses out on experience, training and promotion.

The ivory cracks

Oxford University is not such a stronghold of the elite after all. This October, for the first time, more first-year students will come from state schools than from private schools. Students from state schools will make up 47% of the first year, and students from private schools 45%. The rest come mainly from abroad. The proportion of privately-educated newcomers is five percentage points lower than it was in 1985, and the university's Admissions Office unofficially predicts a further fall next year, to 38%.

Behind the fall lies a new entrance procedure, which brings Oxford more into line with other universities. Oxford used to require candidates to sit a special entrance exam in the autumn term following their summer A levels. State schools found it hard to provide for sixth formers who wanted to stay on for a seventh term. So the written exam stopped last year. As a result, more state schools are submitting candidates. It is still harder for someone from a state

school to win a place: in 1986, 38% of those who applied got in to Oxford compared with 42.6% of private-school pupils. But in 1980-84, an average of only 33.4% of state-school pupils who applied won places.

Cambridge University still has a special entrance exam. Last year, it gave just 37% of its places to applicants from state schools, and 50% to people from private schools. The number of state schools submitting candidates has been dropping while the number of private-school candidates has risen.

Next year Cambridge, too, will be opening its doors wider. In July 1987, any sixth-former who wants to go to Cambridge can sit STEP, the Sixth Term Entrance Paper, straight after A levels. The exam will, in theory, be more attractive to state-school pupils than the old Cambridge Colleges' Examination. If Oxford's results are anything to go by, heads of private schools will be spending a lot of time consoling disappointed parents.

less, although some, like ICI, pay as much as 10%; and the proportion is bigger in the small number of firms actually owned by their employees. The government is now proposing that 5% should be the minimum for a scheme to qualify for tax relief.

The May document suggested that an average employee might stand to gain as much as £5 a week in tax relief; that figure now stands nearer to £3. The cost to the Treasury would obviously depend on take-up and on the proportion of their pay that workers ended up taking as profit share. If 3m workers took part, and 10% of their pay were linked to profits, the annual cost would still be little more than £200m. But it is just possible that, having opened the debate and concentrated people's thoughts on profit-sharing, the chancellor finds it happens of its own accord.

British Gas

Rooke's play

Sir Denis Rooke, the chairman of British Gas, makes no secret of the fact that he would rather be selling gas than the gas corporation. Of all the chairmen of state-owned industries in Britain that have been privatised since Mrs Thatcher came to power, he alone thinks that flogging his industry (a more-or-less natural monopoly) to the private sector is a piece of not-very-harmless politicians' nonsense.

The flotation, planned for November this year, may help the Treasury raise £5 billion-8 billion and encourage more members of the public to buy shares in

traditional rivalry.

Mr Paisley's increasingly angry talk has made the violence of the marching season worse. Scores of people were injured, and dozens arrested. A wall is to be built to keep Protestants and Catholics apart in a north Belfast street particularly plagued with violence. Loyalist assassination gangs, which have not been seen for years, have re-emerged and killed two Catholics.

Profit-related pay

No longer just a bright idea

The government's profit-sharing plans have descended from the realms of economic theory into a form in which they might actually happen. The chancellor, Mr Nigel Lawson, first suggested in his budget last March that the government might introduce tax reliefs to encourage workers to accept part of their pay in a form linked to profits. The Treasury's preliminary thoughts were presented to the May meeting of the National Economic Development Council.

The new consultative document is a joint effort by the Treasury and the departments of employment and trade and industry. That in itself is a sign of progress towards consensus; previously, profit-related pay was very much a Treasury wheeze. But the most important change is that the government is at last

basing its ideas, not on the untried beliefs of Professor Martin Weitzman, an American academic, but on the proven achievements of profit-sharing companies. The undisputed benefit to which such companies can point is greater identification between employees and their bosses. For the first time, the government is emphasising this advantage rather than the more tenuous claim that profit-sharing will generate employment by making pay more flexible.

The new paper goes some way to clear up a number of points which the May document left unanswered. It is also less rigid about the kinds of schemes it would encourage.

The government makes it clear for the first time that it would expect schemes to be introduced instead of an annual pay increase, and that, in some circumstances, employees' incomes could fall. Trade unions will not like that, though they know that outright opposition to worker capitalism would be unpopular with their members.

Earlier signs that the government was intending to lay down a particular model or scheme have disappeared. The formula by which pay is related to profits, and the form in which it is paid out (lump sum or in stages, shares or cash) are, says the new paper, up to companies and their workers to decide. More significantly, the government has also dropped its previous suggestion that companies would have to pay out as much as a fifth of their pay bill in a profit-related form. Most companies with existing schemes pay around 5% or



No performing flea

Quotable

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* **MONEY MAGAZINE** Dec '85

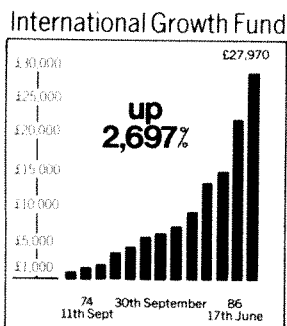
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Daily Telegraph 13th July '85

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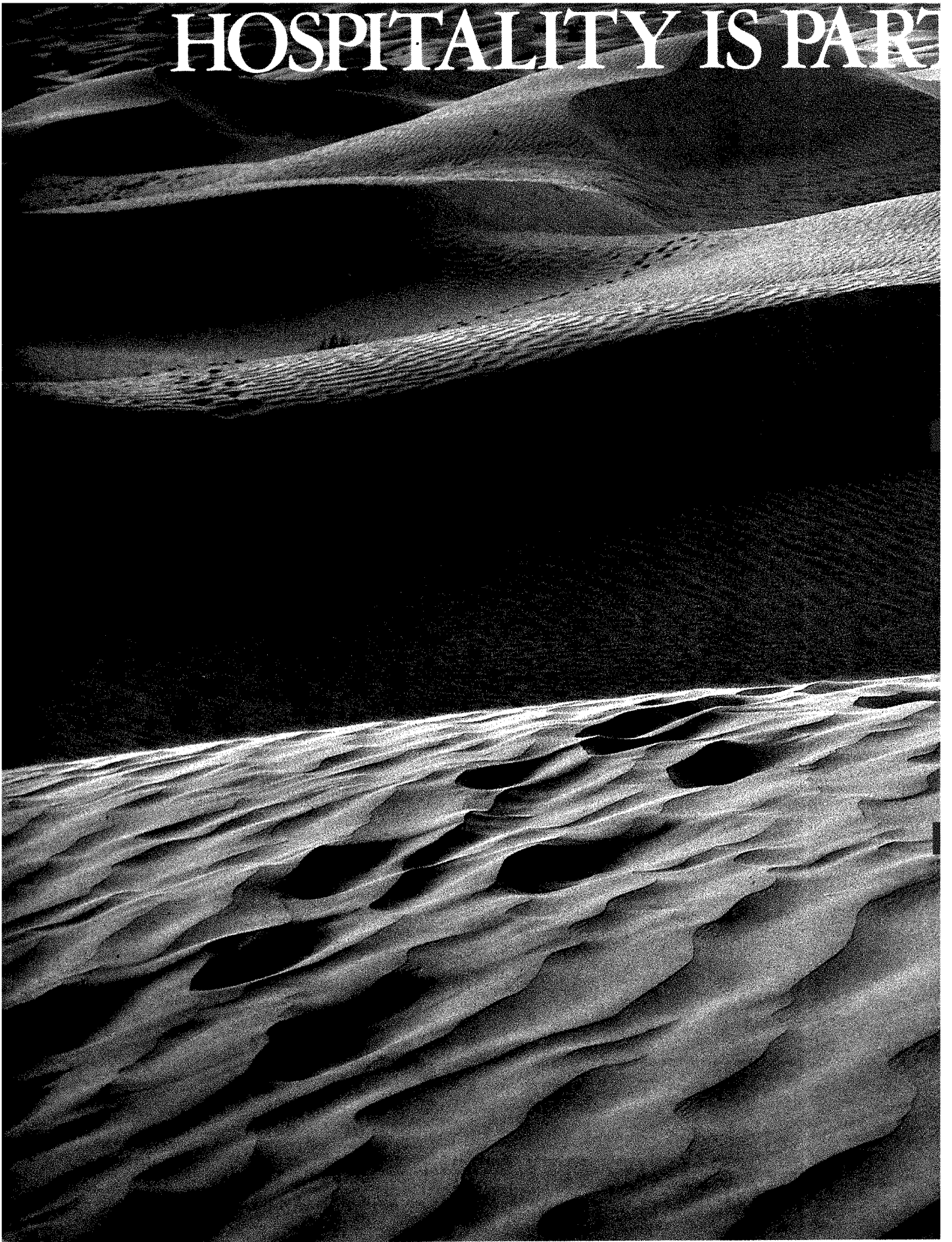
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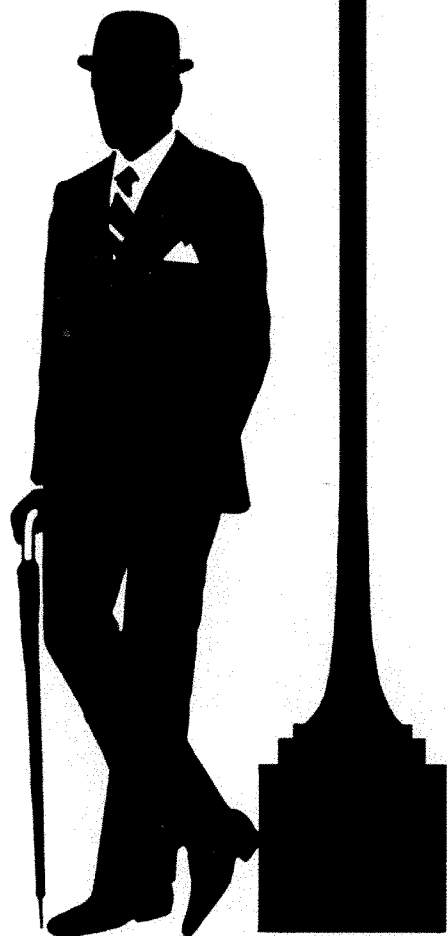
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something they already own. But it will do little, he reckons, for the efficiency of the business he has run for the past ten years. (With one exception: it will rid him of meddling by politicians and civil servants in the prices he charges his customers.) If popular capitalism were the goal, Sir Denis would prefer a free distribution of equity to his 16m domestic gas consumers.

Sir Denis, now 62, and ten years in the top seat, has earned his reputation as the dominant post-war personality in his industry not by pandering to his political masters, but by knowing his job—he is an engineer by training—and telling them frequently (and usually successfully) to mind their own business. He quarrelled with energy ministers from left and right: with Mr Tony Benn and with Mr Nigel Lawson.

Whitehall is used to Sir Denis's forthright views. Not so the army of merchant bankers, admen and other promoters charged with selling British Gas. Not only is the chairman reluctant to sing the wonders of privatisation. He does not think too much of the people he is being asked to sing to, either. Sir Denis's opinion of stockbrokers and journalists is even lower than it is of politicians.

British Gas will be the biggest share offering the world has seen. When BT was privatised in 1984, its chairman, Sir George Jefferson, talked himself hoarse at assorted City and West End lunch tables, manfully flogging the message that what everybody thought was an inefficient old telephone company was really a high-tech enterprise at the leading edge of global integrated communications technology. Sir Denis must now do the same.

But he and his colleagues, now dutifully beginning their rounds in the City, are adopting a different style. Fund managers who venture a simple, carelessly worded inquiry such as "what is your dividend policy?" are liable to be told briskly that the question is meaningless: since British Gas has never paid a dividend in the past (being state-owned), it does not have a present policy, and as it has not yet decided on any future payout, it does not have a future one, either.

Ask him if British Gas is really anything more than a dullish utility, and Sir Denis will cheerfully reply, not with some flannel about growth strategies, but rather: "What is wrong with being a dullish utility? I would rather be running that than be some fly-by-night whizz kid."

And so on. Sir Denis seems to take the view that since the government is selling the company, it is up to the government to judge how to go about it; but he is the guy who runs the show and he will say what he thinks. It is too late to turn him into a performing flea. For such honesty

(or is it mischievousness?), he is unlikely to be thanked by his old sparring partner, Mr Lawson. As chancellor, he needs all the money he can get from the gas sale if he is to keep his dream of tax cuts alive.

Video

Sensibilities and the censor

The bell outside the offices of the renamed British Board of Film Classification (BBFC) in Soho Square is still marked "British Board of Film Censors". Appropriately: although no longer censors by name, the board's members are now more like censors than ever.

In 1985 the board acquired statutory powers and duties to classify, demand cuts in or refuse a certificate for publicly available video recordings. It is required by law to determine whether a video is "suitable for viewing in the home"—a



difficult business, considering that only one-third of British homes have a child aged 16 or under. Before, the BBFC merely certificated cinema films for the guidance of local authorities, and was toothless.

Last year, according to its first annual report, the BBFC's square-eyed guardians sat through 856 video features and trailers, from "The Flintstones Meet Rockula and Frankenstein" to "Lust in the Dust", from "The Living Dead at Manchester Morgue" to "Raiders of the Lost Muppet". This year, submissions are running at a rate of more than 100 each week.

The censors even sit through videos which have already been aired on British television or certified for British cinemas (and charge the distributors £2.30 a minute for doing so). According to the British Videogram Association, the BBFC's charges are deterring the import of some foreign-language videos. A retailer may want just a handful of copies of a new Turkish film, say, to rent out to a few families, but find that the censorship charges makes this uneconomic.

Most videos are untouched. Just 6.4% of them were cut—four seconds out of

Walt Disney's "The Biscuit Eater" but nearly one-tenth of Vestron Video's presumably steamy "Aphrodite". Some 16% were classified for renting to adults only, and one video qualified for showing only in specially-licensed sex shops and cinemas.

Because videos must be suitable for viewing in the home (this concept has not yet been tested in the courts), the BBFC admits that it is tougher on them than it is on cinema films. Five films which had not been cut for the cinema were cut in their video versions. Some types of violence—the use of Asian rice flails or metal throwing-stars—are excluded from all videos because the BBFC does not want their use to catch on in Britain. So too are detailed depiction of some "criminal techniques", such as lock-picking, the manufacture of dum-dum bullets and how to hack a bank cash-dispenser.

But who else is watching?

The BBFC has all these powers because Parliament passed a law—the Video Recordings Act—intended to stamp out "video nasties". The video industry is learning to live with the act it so vigorously opposed in 1984. In fact, all the prosecutions brought so far have been prompted by the industry itself: it has found parts of the act to be an effective means of combating piracy.

The real problem for Britain's video distributors stems from the fact that six months or so after getting their video recorder (VCR), most people lose interest in getting videos to watch on it. Last year, Market & Opinion Research International found that only 28% of VCR-owners rent a film once a week or more. Trade is still buoyant, but that is because the number of homes with VCRs is still growing. In the first quarter of 1986, the proportion of adults with a VCR in their home rose to 44%.

In the first flurry of enthusiasm, new VCR-owners rent or buy their old cinema favourites. But then they complain that no good new films are available. That may be because most new films produced by the big American studios are made to appeal to the 16-to-24-year-olds who flock to cinemas. But it is not these youngsters who control VCR-viewing at home.

What may eventually help the video trade in Britain is the growing penetration of VCRs in American homes. This year, several American studios think they will earn as much from video rentals as they do from the box office. That could mean more films being made with the older stay-at-home market in mind. So Britain's censors may find welcome relief from chain-saw nasties and teenage sex romps.

POLITICS AND THE PRINCE OF WALES

All dressed up and nowhere to go

On July 2nd, the Prince of Wales sent a message to an audience of businessmen and trade unionists gathered by the Industrial Society in the Royal Albert Hall in London. The message was brief and free of his familiar bromides about personal enterprise. It comprised a six-point set of proposals worked out by his new secretary, Mr Rupert Fairfax, recruited from Hanson Trust to advise on such matters. Big firms, said the Prince, should devote 1% of pre-tax profits to "local community enterprise initiatives and charities". They should buy locally from small companies and pay their bills promptly. They should offer premises at peppercorn rents and lend staff to local small businesses. The conquest of unemployment would come about through the efforts of the small entrepreneur.

The Prince's ideas were not particularly novel. They were born of the small-is-beautiful economist, E. F. Schumacher, out of a fascination with all things American. But they were coherent, practical and offered to an important gathering of industrial leaders. Yet the president of the Industrial Society, Sir David Plastow, could be gently dismissive. Of the 1% proposal, he said: "We shall obviously consider it." Princes, he seemed to imply, will have their little eccentricities.

Always a rotten job

The ideas now being put forward by Prince Charles on a wide range of public issues are mostly of a sort that might emanate from any aspiring politician. But coming from the heir to the throne, they inevitably invite confusion. By whose leave does he advocate policies which are properly the concern of governments and industrial leaders? Behind the publicity value of his position, is there any power—or is he just another "personality", pontificating on subjects about which he knows little?

Princes of Wales have notoriously rotten jobs and the present one loses no opportunity to say so. His three predecessors, the future Edward VII, George V and Edward VIII, were emotionally

warped by the experience, and two caused their families and their country acute embarrassment. Matrimony was a recurring problem, and even where this was resolved, there remained the question of how to kill time until the relevant parent died. It is hardly surprising that bored and frustrated heirs to the throne have traditionally broken loose. Most ministers have longed to dump them in a deep freeze, to be brought out only at coronation time.

Prince Charles was programmed from birth to avoid these hazards. He was the first Prince of Wales to be given a conventional middle-class schooling, his parents aware of the disaster that private tutoring had proved in the past. They chose Gordonstoun, imbued with the muscular metaphysics of its founder, Kurt Hahn, followed by cloistered Trinity, Cambridge, rather than Eton and the raucous radicalism of 1960s Oxford. As Prince Philip said in 1956, the principle was not to impose on him a false normality but to avoid the isolation which had blighted the lives of his predecessors.

As far as it went, the strategy was a success. It has produced a man sensible, conservative and respectful of established institutions. He loyally did his stint in the armed forces, married respectably and (unlike his sister) has carefully avoided public rumpuses. Kurt Hahn's insistence on character-building through physical fitness—a fusion of German gymnasium and English public school—was an antidote to the cossetting of Buckingham Palace. It instilled into Prince Charles a belief in individual initiative which remains the biggest single influence on his political outlook.

Yet Hahn also instilled the importance of achievement through personal challenge. This could hardly have been a worse preparation for the life of inert frustration and puppetry to which British heirs to the throne are expected to devote their prime of life. No constitutional forms surround a Prince of Wales. He is an understudy, no more, no less. Given the longevity of his grandmother, Prince



Just waiting

Charles is unlikely to succeed to the throne until he is past retirement age. In 1977, he became a Privy Councillor and began to see a selection of cabinet papers. But he has no part in the traditional monarchical right "to be consulted, to encourage and to warn". Short of renouncing the succession or otherwise precipitating a crisis with his mother, his entire career is at the mercy of those whom Prince Charles and his circle refer to merely as "them": the Queen's private secretary (currently Sir William Heseltine), her press officer, a handful of senior courtiers and "murmurs" down the line from the prime minister's private secretary in Downing Street.

"They" set the horizon of Prince Charles's ambition, and that of other members of the royal family. Since he left the navy in 1976, he has had no real job and feels Downing Street and Buckingham Palace nervously pulling the reins back on anything he says or does. (They did the same to his father who chaired a recent housing inquiry which said the politically unspeakable: that tax relief on mortgage interest should go. That was excused on the bizarre ground that consorts can enjoy more licence than heirs to the throne.)

At 37, Prince Charles knows his contemporaries are meeting the challenge of senior executive jobs, setting the framework for their lives and disposing their income at will. They are, as Hahn would have said, self-reliant and having to prove



Doing the Wenceslas act

themselves. Prince Charles views them with envy. The range of activities at present permitted him falls into just three categories:

- Heir to throne: purely ceremonial, involving almost continual dressing up, shaking hands, making quotable but bland asides and generally dignifying occasions by his presence.

- Super-diplomat: travelling abroad, keeping the Commonwealth happy, boosting British exports. The "Charles and Di Show" has become a global spectacular, ranking with summit conferences and World Cups. The recent trip to Washington and Japan outshone that of any other visitor. Yet it is almost impossible to put a value on such diplomacy. Security dominates every step. When Prince Charles pleaded to be shown poor parts of Washington last year, he was simply told, no. The visit was said to have been worth \$500m in exports, but such figures are wild guesses. The British government has no idea how best to exploit this particular asset, politically or commercially.

- King Wenceslas: the Prince of Wales as social worker is considered acceptable just as long as that does not imply there are shortcomings in government policy. He carefully directs the Prince's Trust, and the Queen's Jubilee Trusts which he chairs, towards helping individuals rather than ideas or large organisations. The Prince's Trust is his creation, designed to foster personal initiative among the young, along Hahn lines.

These three occupations, in "their" view, should at least keep him busy. They do, but they are hardly challenging, and in recent years Prince Charles has deliberately added a fourth: public gadfly. Herein lie the seeds of conflict. A Prince Charles speech is normally a lightweight construct of random observations and

clichés. He writes it himself, usually on the basis of notes submitted either by the organisers of the relevant occasion or by one of his secretaries. It is likely to be short on facts and figures, and shorter on sustained argument: "I can never remember statistics, but I believe..." is a regular admission which reveals the absence of speechwriters or research staff. Probably no public figure in the world must make so many speeches with such little back-up. Yet where his father would toss out catchy phrases on wildlife conservation or the need for industry to "pull its finger out", Prince Charles is beginning to push out ideas which, when knitted together, border on a coherent, and potentially controversial, philosophy.

Contrast Thatcherism

Thus the individual must be sustained in the struggle against the state. Small institutions must be helped against big ones. In contrast to the tenets of conventional Thatcherism, Prince Charles's philosophy requires active governmental intervention, especially in the two areas which the Prince has made his special concern—the environment, and industry and employment. In both, he relies on Schumacher and Hahn, on commercial enterprise arising from personal initiative. Both concepts require co-operation between public and private sectors, another relentless princely theme. People cannot be left to "stand on their own feet", any more than they should be stripped of personal responsibility by a socialist bureaucracy. A partnership is required, collaborative, consensual, non-ideological.

In the past two years, these ideas have been specifically applied to the inner city. As he traipses round dossers' haunts and unemployment black spots in Soho, Glasgow and Handsworth, the Prince's language is carefully "motherhood". But his

concern vividly recalls that of his predecessor, the future Edward VIII, after his visit to the unemployed in South Wales in 1936. He is scrupulous to avoid the latter's controversial request that "something must be done to find them work", but the whole thrust of his visits and speeches is an echo of that phrase, and it irritates government ministers. He has made no balancing speech, say, praising Britain's economic progress since 1979.

Everything must be in code. "So much talent wasted", he told the unemployed in South Shields in February. "It would be encouraging", he told the Institute of Directors last year, "if we could see a more coherent approach to inner-city problems through the programmes of the Departments of Environment, Trade and Industry and the Manpower Services Commission." He has called for a relaxation of zoning regulations; for public authorities to release land at peppercorn rents; for joint projects between local councils and businesses; for more money for "pump-priming"; for the ending of VAT on building repairs; for retaining home-improvement grants.

Conservative iconoclast

Time and again, he cites American examples against Britain. In America, enterprise flourishes as against a "completely different culture" in Britain. There, the public and private sectors work together, without "complicated bureaucratic organisations and committees to tell everybody what they ought to be doing". His concentration on inner-city regeneration has led him ever nearer the political bone. His highly popular intervention in the Mansion House and Trafalgar Square planning controversies in May 1984 made it almost impossible for the secretary of state at the time, Mr Patrick Jenkin, to approve the criticised projects. His espousal of Mr Rod Hackney's "community architecture" effectively silenced the contempt for such work among many local government architects.

In addition, the Prince has attacked government failure to protect "wetlands, moorlands and hedgerows". The reputation of British medicine is now "in danger of being prejudiced through lack of adequate resources". Always the emphasis is anti-bureaucratic, individualistic and implicitly critical of the present government. Sometimes the cry is particularly heartfelt. The Prince's conservative habits and appearance conceal a testy iconoclasm. His enthusiasm for homoeopathy led him to attack the doctors' "ingrained suspicion and outright hostility towards anything unorthodox". He is strongly anti-union, yet for industrial democracy. He has discussed proportional representation with Dr David Owen and is keen on

THE PRINCE OF WALES

parliamentary reform. He is a natural coalitionist.

There is no doubt where on the political spectrum Prince Charles would find himself most at home. While the Queen is an instinctive Tory, her son would seem a mainline Social Democrat, a clear chip off Dr Owen's block. He is careful to avoid the central issues of party politics, economics, foreign and defence policy. But the meatier parts of his speeches might have been lifted from an SDP manifesto.

This is hardly surprising. A young man educated to concern himself with public affairs, a Privy Councillor who receives cabinet papers and converses daily with politicians, an activist touring the country and eager for something to do, is bound to react against the existing order. Strongly anti-socialist, Prince Charles naturally tends towards the progressive middle ground vacated to the Alliance by Mrs Thatcher and her wing of the Conservative party. Thus motivated, he has eschewed the political forum of which he is already a member, the House of Lords, and begun tossing out policy ideas with the enthusiasm of a think tank, albeit one short of resources.

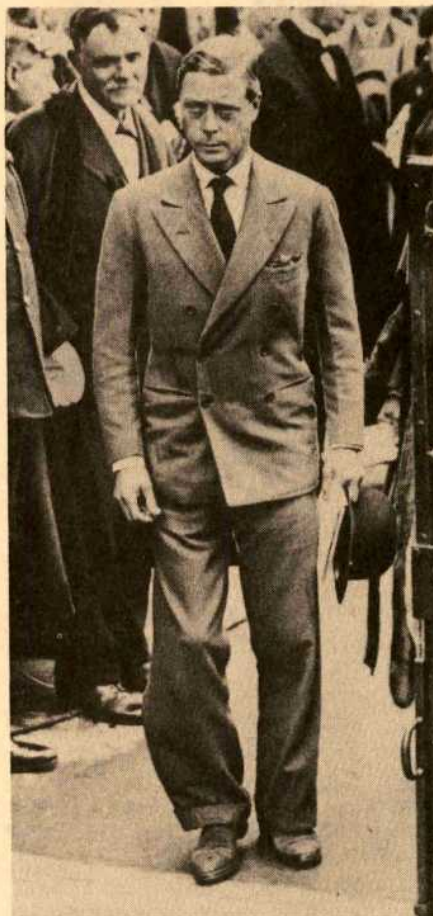
Wanted: a prince's private office

Prince Charles's private secretaries, first Sir David Checketts, then Mr Edward Adeane (descendant of two royal secretaries), were widely seen as agents of the Buckingham Palace establishment, their task being to keep him happy, in line and out of trouble. Apart from military equestrian to organise his engagements, Prince Charles had to rely on the Queen's staff for everything, including political and press liaison. He did not have so much as his own filing system. Even today, his and Princess Diana's press officer comes under the Queen's press officer, Mr Michael Shea.

In the past five years a private office of sorts has grown up for the Prince. His new secretary, Sir John Riddell, is neither courtier nor soldier, but an easy-going banker more inclined than his predecessors to see the Prince's side of things. Mr David Roycroft was seconded from the Foreign Office to help plan engagements. More recently, Mr Rupert Fairfax arrived to help develop the Prince's involvement in industry, notably through Business in the Community. The late Sir John Higgs, who went from academic life to run the Duchy of Cornwall in 1981, was also an adviser and mentor on environmental matters until his sudden death this year. He was crucial in ordering the Prince's finances and has yet to be replaced.

The Prince of Wales enjoys one discretion not available to his parents or close relations. He receives no Civil List income, relying instead on the revenues of

the Duchy of Cornwall less the 25% of profit paid to the Treasury in lieu of tax. It is a payment he frankly begrudges, since he would rather dispense it through his trusts than through the Exchequer (who wouldn't?). He is thus freer of the rigid Civil List cash limits than other members of the royal family, but has yet to show much ingenuity in turning this discretion to advantage. His new appointments, supported by a dozen personal staff and equestrians, have begun to develop a team spirit of their own, distinct from (though still located within) Buckingham Palace. They seem certain to



He didn't enjoy it much, either

come into growing conflict with the Palace. Yet, though they might be sufficient for a ceremonial role, they remain pitifully weak for the wider ambition that the Prince now sees for himself.

The Prince's aversion to the civil service leaves him bereft of Whitehall "street wisdom" and the policy co-ordination this could supply. It is not surprising that his speeches, which are unvetted and mostly under-researched, cause hearts to miss a beat in Buckingham Palace and Downing Street. What if he began campaigning against Trident (which he might) or against student loans or for a £12 billion public-sector borrow-

ing requirement?

The answer is, nobody knows and nobody knows if it really matters. It is clear that the heir to the throne cannot reasonably expect to hold down a normal executive job, whether challenging or not. Too much of his time goes on ceremonial duties. Nor is there evidence as yet that he has the aptitude—or capacity for making enemies—that executive tasks often entail. This must even apply to the sort of job he craves, such as "sorting out" some aspect of inner city problems. Others are elected and paid to keep the royal family out of executive politics.

Yet that does not mean that the Prince must remain above controversy. He is in an excellent position to exert influence without any of the responsibilities of power—which is precisely why government and Palace are so nervous of him. He is well educated and intelligent. He has unrivalled access to every corner of British society, however grim, and seems determined to make use of it. He has strong opinions. When they are unavoidably party political, they fortunately fall into the soggy Liberal/SDP point on the political spectrum where "protest votes" tend to congregate. In this position, he is well placed quite simply to be an "influence". He can knock heads together—as he has done between police and black youths he meets on his rounds. He can ridicule professional pomposity and conservatism.

Prince Charles is well aware that the press and the public could ignore his interventions or dismiss them as eccentric. He is thus in the same position as any "elder statesman" or the holder of any office of dignity. His influence is in direct proportion to the care and intelligence with which he exerts it.

Probably his greatest inhibition is his own upbringing. He is as wedded to hereditary monarchy as his mother. Though he may battle daily with "them", neither he nor they have any clearer vision of a way forward than have the Royal households since time immemorial. His loyalty to the Crown makes him reluctant to say "Boo" too loudly to anybody. He is one of the most politically concerned of Europe's actual or potential monarchs, but he still lacks the self-confidence of, say, the Dutch Queen Beatrix.

Yet he may have 30 years to go before he gets the job for which he has been trained since birth. Even if he gradually "comes out" of his present Social Democrat closet, it is hardly likely to bring the British constitution down about his ears. A bit of Kurt Hahn initiative and enterprise would seem to be in order. The British public likes its royals to speak their minds.

BUSINESS THIS WEEK

President Mitterrand stalled the French government's **privatisation programme** because he was dissatisfied with the safeguards against foreign ownership. To overcome the veto, Jacques Chirac, the prime minister, planned to rush a bill through parliament that puts a 15% ceiling on foreign holdings in any privatised company.

Russia and Britain agreed on a £45m fund to settle pre-revolutionary claims by British citizens on **Tsarist bonds**. Is Russia getting ready to tap the Eurobond market?

May Department Store bought Associated Dry Goods for \$2.6 billion to create America's fourth largest retailing group.

Travelers Corporation, an American insurer, is buying **Dillon Read**, a New York investment bank, for \$157m.

Taiwan, America's biggest supplier of cloth and clothes, agreed to restrict severely growth in its **textile exports** to the United States over the next two years.

Ireland vetoed EEC proposals to set quotas for imports of **New Zealand butter** in 1987 and 1988. France had lifted its objection to the import of the butter in negotiating the release of its secret agents involved in the

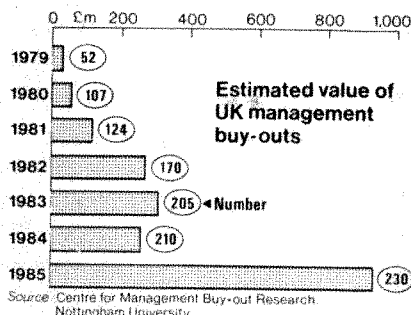
Rainbow Warrior affair.

Oklahoma's second biggest bank, **First National Bank of Oklahoma City**, went under, hit by its overlending to energy companies.

Talks opened to thrash out the details of an IMF standby credit of up to \$500m for the **Philippines**.

Space shuttle flights will not resume before 1988, NASA said.

Standard Chartered successfully repulsed a £1.3 billion takeover bid from Lloyds Bank. But none of its three main rescuers—Hongkong's Yue-Kong Pao, Australia's Robert Holmes à Court and Malaysia's Tan Sri Khoo Teck Puat—is renowned as a philanthropist.



A study calculated that the value of **management buyouts** in Britain increased from £255m in 1984 to £930m in 1985.

Mitchell Kapor, the founder of **Lotus Development**, one of the world's largest software houses, resigned.

The IMF reached tentative agreement with **Mexico** on debt relief and economic restructuring.

Mexico prepared an application to join the GATT. **China** applied formally to join the GATT, too.

Norway is seeking \$500m on the international bond market—its first offering since 1979.

PepsiCo, which was forbidden to buy the whole of Seven-Up by America's trustbusters, has bought just its international operations, for \$246m.

Ford of Britain decided to invest £45m to beef up production of vehicle components.

The MBB aerospace company got West Germany's first order from the American **star-wars project**, a \$4m contract to design experiments for sensing devices.

The Reagan administration alleged that **Japanese food import quotas** were violating GATT trade rules.

Economic and financial indicators are on pages 91-92.

Corporate scorecard

Company	Period	Net profit \$m*	% change on comp period**	Sales \$m*	% change on comp period**	Comment
Apple Computer	N Jun 27	121	+211	1,390	-7	The Silicon Valley personal-computer maker has bounced back under the leadership of John Sculley.
Broken Hill Proprietary	Y Mar 31	690	+31	5,930	+20	Australia's largest company is the first in that country ever to make profits of more than A\$1 billion, despite the poor showing of its petroleum operation in the final quarter.
C. Itoh	Y Mar 31	84	+42	71,920	+9	The Japanese trading house managed to boost its overseas sales by 12.4% despite a strengthening yen.
Honda Motor	Q May 31	165	-37	4,050	-4	The impact of <i>endaka</i> —the strong yen—was blamed for this sudden decline.
IBM	H Jun 30	2,320	-3	22,400	+6	The computer giant has not performed as well as competitors like Burroughs and NCR. The result depressed the stockmarket.
Japan Air Lines	Y Mar 31	(18)	†	4,180	nil	The flag carrier has been harmed by the crash of one of its 747s last year.
Northrop	H Jun 30	62	-55	2,700	+16	The military aerospace group's profits were down 75% in the second quarter, the result of start-up costs on some new classified contracts.
Pfizer	H Jun 30	325	+14	2,150	+10	The American pharmaceuticals group said the weaker dollar boosted its sales overseas.

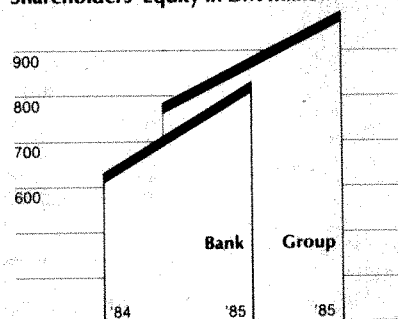
Y = Year ended. N = Nine months ended. H = Half-year ended. Q = Quarter ended. () = Loss. *Converted at average exchange rates. **Based on local currency figures. † = Profit in previous period.

1985: BRISK AND SUCCESSFUL

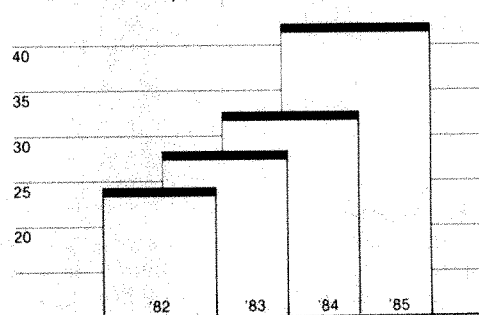
■ **Balanced growth in all sectors** – 1985 was a particularly successful year for BHF-BANK, Germany's Merchant Bank. Achieving sound growth in all major areas of activity, both domestically and internationally, the BHF-BANK Group increased business volume to nearly DM 30 billion. The Bank raised its balance sheet total by 10.4% to DM 12.7 billion.

■ **Substantial rise in earnings** – Profitability exceeded the high level attained in 1984. Partial operating profit, which excludes earnings from own-account trading in securities and foreign exchange, rose by 13.5%. Overall net profit was notably higher. Net interest income advanced 11.2%. Fee income grew 19% thanks largely to significant gains in securities trading as well as new issue business.

Shareholders' Equity in DM million



Total Dividend Payment in DM million



■ **International business up considerably** – BHF-BANK further expanded its international market position in 1985, especially in trade-related financings, stock exchange transactions, securities trading and international fund-raising operations. Contributing materially to the Bank's excellent performance were the New York and Tokyo branches as well as a new branch opened at mid-year in Singapore.

■ **Equity base increased** – The year's results enabled BHF-BANK to raise its dividend from DM 10.50 to DM 12.– per share and again strengthen its reserves. The Bank's capital and reserves have now reached more than 6.5% of the balance sheet total. Moreover, the Group has increased its equity capital to DM 1 billion. Combining a broad range of merchant banking capabilities, a highly motivated professional staff, and a strong capital base, BHF-BANK is well positioned for future expansion and development.

A copy of the 1985 Annual Report is available upon request.

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HEAD OFFICE: Bockenheimer Landstrasse 10, D-6000 Frankfurt 1, Telephone: (069) 7180, Telex: 411026 (general), Telecopy: (069) 718-2296
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WORLD BUSINESS

Big Oil peers into the abyss



Bad news in the pipeline

Oil prices are falling so far that oil companies are starting to run out of ways of pretending that it is not a disaster for them. This month, for the second time this year, oil has fallen below \$10 a barrel. Though prices in America are still higher, cargoes of North Sea oil have traded recently for as little as \$8 a barrel.

Many oilmen fear that the spot price could drop further. OPEC's continuing overproduction, its failure to agree a new set of production quotas at successive meetings, and extensive restocking by consumers in the second quarter of the year have contrived to leave a surplus of 1m-2m barrels a day overhanging the market. Market sentiment, too, is much weaker after the way the \$10 "resistance point" has collapsed without so much as a fight.

If the oil price remains in single figures, large swathes of the oil industry will be in serious financial trouble. Scores of companies, including several famous ones, will lose money. Some could go bust. The companies are having to work harder than ever to maintain the confidence of their bankers, investors and those employees they have not already fired.

When oil was trading at \$15-20 a barrel, oilmen comforted themselves with the thought that prices would need to sink to \$5-8 a barrel before high-cost production in the North Sea or Alaska would have to be shut down. The possibility that many developments in these areas will no longer be generating enough revenue even to cover the marginal cost of continued

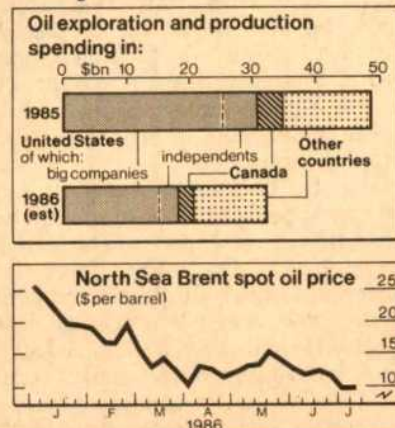
operation is beginning to make nerves jangle. According to Smith New Court, a London brokerage firm, if oil prices remain below \$10 a barrel, only five of the 13 quoted oil companies on the London stockmarket (BP, Shell, Burmah, Ultramar and Imperial Continental Gas) will be making a profit.

Many oil men are much gloomier in private than they can afford to be in public. Though poor, the second quarter results that the big American oil companies are due to publish in the second half of July will not reveal the full extent of the damage caused by the latest price collapse. The prices realised on the oil they produced in the second quarter averaged around \$13 a barrel, compared with about \$19 a barrel in the first quarter.

Nearly every large oil company has told its shareholders that profits will be sharply down on both the first quarter of this year and on the second quarter of last year. The fact that some, like Atlantic Richfield, took big write-offs in 1985 will, however, make the trend of earnings less clear. Goldman Sachs, an American investment bank, calculated in June that with an average oil price of \$15 a barrel over 1986 as a whole, earnings of the six biggest international oil companies (Exxon, Shell, BP, Mobil, Chevron and Texaco) would drop by 39% this year, and those of America's domestic oil companies by 55%. Goldman Sachs expects to reduce these estimates yet again.

Phillips Petroleum is the only top American oil company that analysts expect to announce a loss in the second quarter, but half the rest could do so in

The year so far



Sources: Salomon Brothers, Datastream



WORLD BUSINESS

the third quarter if oil prices do not rise again soon. As in the first quarter, companies strong in refining and marketing will suffer least; those with only exploration and production interests the most.

The American companies' second-quarter figures could turn out to be better than expected. Their refining and marketing margins held up better than many thought they would (though they are now weakening again), and finance directors in the oil industry are no different from any others. They have a preference for packing most of the bad news into whichever quarter they expect to be the worst of the year. The way prices are going, this will no longer be the second quarter (as they first thought) but the third.

Profit is no longer today's main preoccupation for either management or shareholders in the oil business. Cash flow, liquidity and the health of the balance sheet are the key measures. As the oil price slides, managements are progressively tightening the screw on both overheads and capital spending. According to Salomon Brothers, another New York investment bank, the big international oil companies intend to slash their exploration and production spending in the United States by 40% this year. Independent American oil companies (ie, those without any downstream interests) plan to hack theirs by nearly 50% (see chart on previous page). When Salomon Brothers did a similar survey in December 1985, 6% of the international oil companies and 7% of the independent American oil companies intended to reduce their spending.

On stockmarkets, investors have been moving their money out of highly geared integrated companies and highly exposed exploration and production companies into the financially stronger, high-yielding giants (such as Exxon, Shell and BP). They have not so far rushed out of this sector which traditionally sells on a lower earnings multiple and higher yield than the market as a whole. But if oil stays below \$10 a barrel, the dividends which support those yields will come under pressure, even for an Exxon or Shell. Some are feeling the pressure already: Atlantic Richfield told analysts in April that, if oil prices stayed at \$15 a barrel, it would have to borrow in order to maintain its dividend this year and next.

Even in such dismal circumstances, some oilmen refuse to despair. Shell thinks that the further prices fall now the quicker and further they will rebound later. Companies with strong financial resources can see offsetting advantages even from sub-\$10-a-barrel oil. Product sales, they say, should pick up as demand revives, and assets should be available at bargain prices.

Inconvenienced

BASLE

On July 15th, a white cross on a red background ceased to be a flag of convenience. Switzerland's parliament approved a new law tightening rules on ship registration. This represented the federal government's first acknowledgment in years that landlocked Switzerland has a sizeable fleet—350 tugs and barges which ply the Rhine and 34 merchant ships on the high seas.

Only river boats could use Switzerland as a flag of convenience. (For an ocean-going ship to be registered in Switzerland, 75% of the ship must be owned by Swiss citizens, and 50% by Swiss resi-



dents.) Dutch owner-captains found the Basle registry particularly convenient. Half the 350 river boats now flying the white cross are expected to disappear from the registry in the next few years. Switzerland stands to lose SFr500,000 (\$284,000) a year in taxes, but thinks it worthwhile to restore the image of Swiss sailors—an image besmirched by foreign buccaneers waving Swiss flags.

The Swiss sailors have more to worry about than their reputation. They now transport only 20% of Switzerland's trade, compared with nearly 30% a generation ago. The shipping companies complain less about unfair competition from road transport than from the railways. West Germany's Bundesbahn, they claim, has cut rates along the Rhine, where it competes with ships.

A looming threat is the Rhine-Main-Danube canal connection. Its last section, in Bavaria, is due for completion in 1992. It raises the spectre of cheap East European competition for the Swiss sailors. The 1868 Mannheim Act on Rhine shipping acquired an additional protocol in 1979, which was supposed to assure freedom of navigation on the Rhine only for the signatory countries. But it will be difficult to keep Romanians or Hungarians off for long. When there is already an estimated overcapacity of 15-20%, that is not a happy prospect.

Software

The Lotus position

BOSTON

Lotus Development is one of those business successes that seem peculiar to America. Started in 1982 by the then 31-year-old Mr Mitchell Kapor and a few colleagues in a basement in Cambridge, Massachusetts, it had grown by last year to sales of \$225m and net profits of \$38m.

Mr Kapor resigned as chairman on July 11th, ostensibly to let others have a go. He remains a director and the company's largest shareholder, with 11% of the stock. Mr Jim Manzi, the 35-year-old president brought in by Mr Kapor, takes over as chairman. Business, say all concerned, will go on as normal—which means battling hard to maintain Lotus's record of success.

Lotus has been built on a single software package called 1-2-3, of which it has sold 1.5m copies. Designed to be used on IBM personal computers, 1-2-3 is an electronic spreadsheet, on which accountants and financial analysts can massage numbers quickly and easily. More than half of the American spreadsheet market is still held by 1-2-3, but the company's managers cannot count on finding new blockbusters to provide future growth.

Lotus has developed other new products, like Symphony, which adds word processing and other features to 1-2-3, and Jazz, which does similar things for users of Apple's Macintosh computer. But none has joined 1-2-3 in the software stratosphere, partly because life has become harder for salesmen in the software business. Growth in American personal computer software sales has slowed to 20-25% a year (it averaged around 100% year in Lotus's early days). Competitors



Mitchell Kapor, 3-2-1-blast-off

America prods the sluggards

America, fed up waiting for Japan and West Germany to take the lead in cutting interest rates, has acted alone. Its decision carries a serious message for the world's second and third biggest economies: grow faster or face the consequences of a weaker dollar

The latest cut in America's discount rate—from 6½% to 6%—was the fourth since December. It is unlikely to be the last. The American economy is flagging: GNP grew at a seemingly respectable annual rate of 2.9% in the first quarter, but this was partly a statistical quirk as more than the whole of the rise was accounted for by stockbuilding. The second-quarter figures, due on July 22nd, are expected to be much weaker—industrial production fell at an annual rate of 2.8% during the quarter. The long-heralded bounce-back in the second half is looking increasingly elusive.

In trimming interest rates, the Federal Reserve is also motivated by a desire to put pressure on America's trading partners to stimulate their own economies, boost world growth and narrow America's trade gap. America has grown impatient waiting for Japan and West Germany to agree on a co-ordinated reduction in interest rates. By going it alone, it is serving notice on other countries that if they fail to respond with interest-rate cuts or fiscal reflation, it is prepared to let the dollar slide further. This would make life even more uncomfortable for West German and Japanese exporters.

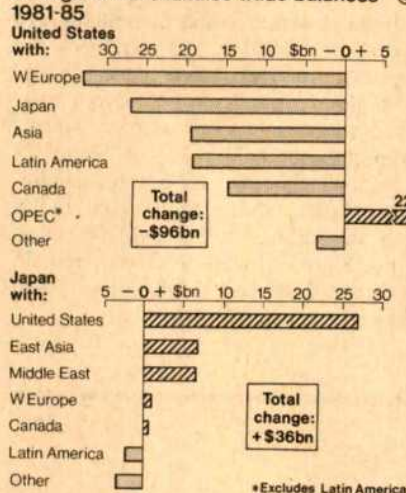
Before the Fed made its move, both the Bank of Japan and the Bundesbank had rejected a cut in interest rates. The sluggishness of both the economies they watch over, with declines in real GNP in the first quarter, suggests a strong case for calling on them to loosen their monetary reins. America's demand for lower interest rates is increasingly being echoed in Japan where the strength of the yen is taking a heavy toll on industry (see page 60). A token cut of half a percentage point in Japan's discount rate could therefore follow soon.

The West Germans could prove more obstinate. Their government is confident that real GNP growth will reach at least 3% in 1986. The OECD agrees: its latest report on the West German economy put growth at 3½% in 1986 and 3% in 1987. That will be fuelled by domestic demand, not exports—the OECD reckons domestic demand will expand by 4-4½% in 1986 and 1987.

The historical low level of discount rates in West Germany and Japan—both currently at 3½%—is another obstacle to much lower interest rates. For Japan, 3½% is a postwar low. West Germany has only once had a discount rate lower than 3%—briefly in 1959.

Real interest rates still look high. But are they being measured wrongly? As the Bundesbank notes, the consumer-

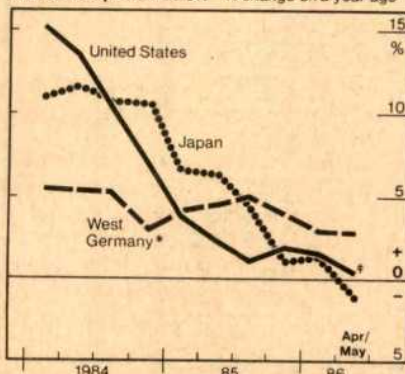
Change in merchandise trade balances ②



price index currently underestimates the underlying rate of inflation. If the GNP deflator—which excludes import prices—is used, real interest rates look much lower. In West Germany, for example, real short-term interest rates stand at only 2% by this measure. So the scope for promoting faster growth by monetary means is limited. Fiscal policy will also have to play a role.

The yen and the D-mark have both risen by more than 60% against the dollar since February 1985, yet America's trade deficit and Japan's and West Germany's surpluses continue to mount. The volume of trade is moving in the "right" direction, but this is being offset by swings in the terms of trade. Chart 1 shows how the ratio of the volume of exports to imports has fallen in both Japan and West Germany this year; but, because import prices have fallen sharply, their surpluses have embarrassingly continued to rise in dollar terms.

Industrial production % change on a year ago



Sources: OECD, Bank of Japan, Bundesbank *Adjusted for effects of strikes in 1984 †Ratio of exports to imports ‡Second quarter

The switch in exchange rates will eventually eat into America's deficit and hence Japan's surplus, but it will not by itself eliminate them. America and its trading partners remain split over what further action is needed. America wants the rest of the world to grow faster; Japan and West Germany want a big cut in America's budget deficit.

In Japan's defence

Japan is defended by Mr Shafiqul Islam of the Institute for International Economics in Washington. He dismisses the popular view that Japan's trade surplus is large because the country saves too much. Instead, he says that America's budgetary profligacy, which fuelled the dollar's rise, is to blame; and the solution to Japan's surplus lies in Washington, not Tokyo.

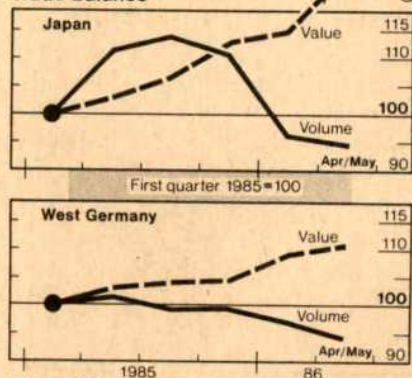
He finds support for his thesis in the shifts in America's and Japan's bilateral trade balances with other countries during the past four years. Chart 2 shows that the increase in America's trade deficit took place across the board: its trade position deteriorated against all regions except OPEC.

If the cause of Japan's widening trade surplus lay in Japan, economists would expect the increase to be spread evenly among its trading partners. It is not. The rise in Japan's surplus with America accounts for three-quarters of the total increase and OPEC accounts for most of the rest. Its trade with the rest of the world shows no particular trend.

This, Mr Islam says, suggests that the underlying cause of the imbalance lies in America, not Japan. The solution to Japan's surplus is for America to cut its deficit, not for Japan to save less.

He also claims that it is both natural and desirable for a high-saving industrial country like Japan to export capital and run a current-account surplus. This is what Britain did in the 40 years to 1913, and America in the 75 years to 1971. The argument is right, but unlikely to impress America's protectionist lobbies.

Trade balance†



WORLD BUSINESS

now abound where there were none before.

Mr Manzi has several ideas to keep the bloom on Lotus. The company has increased spending on research and development from about \$2m in 1983 to more than \$21m this year. It has diversified, partly by buying smaller firms. Industry insiders say Lotus is preparing a sophisticated word processor, among other new products.

Lotus also hopes to maintain growth and profits on 1-2-3 by producing new products that will extend its capabilities. The latest is the Application Connection. It links personal computers to mainframes so that managers can more easily use products like 1-2-3 to analyse corporate data. Unlike 1-2-3, which is sold through retailers at a list price of about \$500, the new software costs \$30,000 for a basic package and Lotus will have to sell

it direct to companies.

As it widens its product range, Lotus is also expanding overseas. Foreign sales have grown faster than those in America, to account for 20% of all sales, compared with 8% in 1984. A strong performance in Europe helped to increase Lotus's total sales to \$135.4m in the first half of this year, compared with \$103.9m a year earlier. Japan comes next. This year, Lotus will market a Japanese-language version of 1-2-3 for the NEC personal computer, the local market leader.

Not all of Lotus's new ventures have proved successful. The company admits disappointment with sales of Signal, a program which allows 1-2-3 to receive up-to-the-minute share and commodity prices via radio. Having paid \$6.4m to acquire Signal's inventor, Dataspeed, in 1985, even Lotus can ill afford more such lacklustre launches.

single Japanese plant, in Saitama. It is shifting its VTR production to Mitsubishi's plant in Taiwan and will start making CD players at its French subsidiary, which now produces VTRs. Akai plans to make 60% of its VTRs overseas. It hopes this way to cut last year's loss of Y6.7 billion by more than half.

Sansui has already shed 350 workers, reducing its workforce in June to 1,100. It had tried earlier to diversify from mainstream audio components into car stereos but found that market had slumped too. Now it is increasing its investment in Radio Corporation of Taiwan, of which it currently owns 20%. It has also tied up with Douglas, an American company, to produce commercial videotapes. The rising yen has hit Sansui especially hard because the company failed to cover forward its foreign-exchange requirements. Losses for its current year are forecast to rise to Y5.5 billion on sales of Y40 billion from Y1.1 billion on sales of Y47 billion a year earlier.

It is not just the middle-sized or troubled firms that are continuing to shift production overseas. Fujitsu, Japan's sixth biggest electronics company by sales, has just said that it will be investing in a Chinese factory in Sichuan province. It plans to export half the output of 100,000 fridges a year to America and the Middle East.

An alternative strategy for the big firms is to regulate the flow of new products on to the market, holding back the latest to prevent them destroying markets for existing ones. This is happening with the latest digital way to record sound on tape. Were it to be marketed immediately, it would probably spell the end of CDs, the industry's great hope.

The yen, meanwhile, has appreciated by a further 12½% against the dollar since March 31st, the end of the financial year for most Japanese electronics groups. And the Ministry of International Trade and Industry forecast this week that Japan's economy would probably grow by only 2½% this year, against the government's earlier prediction of 4%.

Japanese electronics

Very Terrible Results

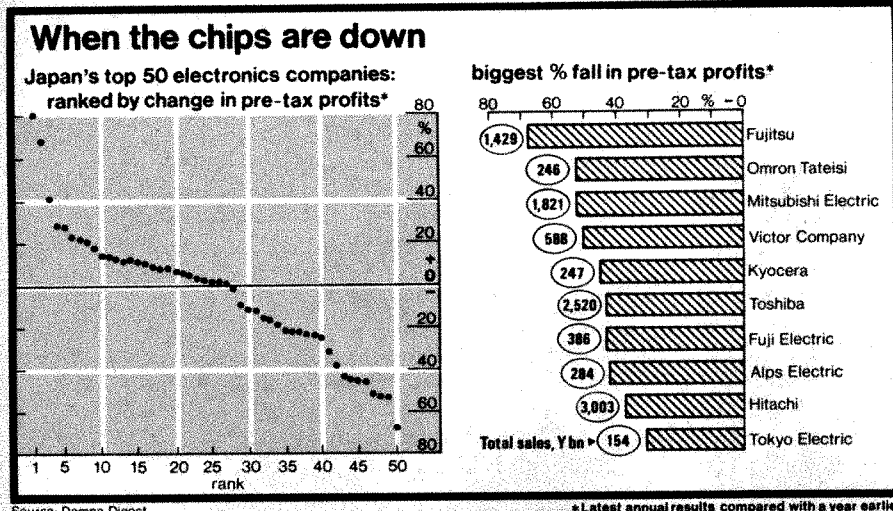
The worldwide slump in the semiconductor industry is not the only thing hurting Japan's electronics companies (see chart). The fall in demand for such consumer-electronics products as videotape recorders (VTRs) and some audio equipment is also proving painful. Price wars among the companies and the strength of the yen are hastening their search for cheaper production abroad. A clutch of recent announcements from consumer-electronics companies shows both the pain and possible remedies.

Aiwa, Akai Electric and Sansui Electric, three middle-ranking groups with well known brand names in western export markets, are all shedding staff and closing plants in Japan. Aiwa, a pioneer of cassette-tape recorders, wants to axe

700 of its 3,100 employees by the end of this month. It is closing one of its three factories in Japan and increasing production of audio systems, compact-disc (CD) players and VTRs at its Singapore plant, one of its two overseas factories (the other is in South Wales). In its current financial year, ending in November, Aiwa is likely to make a loss of almost Y4 billion (\$25m) on sales of Y65 billion, against a pre-tax profit of Y457m on sales of Y76.3 billion a year earlier.

Akai, which has suffered from the slump in the audio and VTR markets and is being nursed by Mitsubishi Electric, plans to cut its 2,000-strong workforce in Japan by nearly one-third by next March. It is closing a factory and selling off its main plant in Tokyo. That will leave it with a

TOKYO



Puma

Into the public arena

HERZOGENAURACI

The tussles at Wimbledon and in the World Cup in Mexico are nothing compared with the battle between the two West German firms, Adidas and Puma that make many of the sporting goods used by tennis and soccer stars. Both companies are based in the small Bavaria



Brand-name Boris

ian town of Herzogenaurach. They are n by cousins who rarely talk to one another. The Adidas cousin is Mr Horst Dassler, who, like his sisters, owns 20% of the company. The Puma cousin is Mr Armin Dassler, who holds 70% of the firm's voting shares.

For companies whose products are ubiquitous, Adidas and Puma are remarkably reticent about their businesses. But Puma, which prefers to talk about how Boris Becker has won Wimbledon two years running using Puma rackets, has decided to open up a bit by coming to the West German stockmarket. It is issuing 280,000 non-voting preference shares. Deutsche Bank, which is leading the flotation, reckons the sale will raise DM86.8m (\$39.5m) for Puma by the time trading starts in Frankfurt and Munich on July 25th.

In its prospectus, Puma says its 1985 sales were DM1.8 billion, producing profit before tax of DM19m (\$6.5m), up from DM13m in 1984. So Adidas is ahead at least on turnover. Its estimated sales this year are DM4 billion.

On December 31 1985, Puma had share capital and reserves of DM55m, up from DM33.3m the year before. Against that it had long-term debt of DM77.7m, up from DM56.4m—one reason why the company has chosen to raise extra money on the stockmarket. Because of reduced sales in America and troubles with its newly-acquired distributor in Los Angeles, Puma has forecast a drop in 1986 profits. But it still hopes to pay a first dividend of DM9 per share.

Competition from American and Asian sports shoe firms helped push Adidas into buying Pony, an American rival. It has also encouraged both West German firms to broaden their range of products. Adidas ran ahead of Puma by branching out first from sports shoes into sports clothes. Now Puma is also trying to persuade amateur sportsmen that looking good is

as important as playing well. Textiles account for about 30% of its sales.

Getting famous sportsmen and women to wear your goods in front of television cameras is expensive—advertising usually accounts for around 3% of Puma's turnover—but the results can be spectacular. In 1985, the year of Boris Becker's first Wimbledon triumph, Puma's sales of tennis rackets in West Germany went from nearly nowhere to a third of the market. This year, the company is counting on more such victories.

General Electric

Turbines in a spin

NEW YORK

Mr John Welch, the chairman of General Electric (GE), has selected the American company's old turbine business for his latest "restructuring". The turbine division made a pre-tax loss of \$30m in the first quarter of this year and its recent

hopes of breaking even by the end of 1986 have been dashed. Turbines are piling up in GE's and competitors' warehouses around the world. Slow growth in electricity consumption has made turbines wear out less quickly, and the fall in the oil price has shrunk GE's markets in the Middle East.

So 1,200 jobs, 15% of GE's turbine workforce, will go—most of them by the end of this year. But turbines will remain one of the 15 "critical" businesses that Mr Welch has pinpointed to take GE into the next century. The company expects the turbine market to turn up again in the 1990s.

Mr Welch has put the 15 businesses into three groups, labelled core manufacturing, technology and services. He wants GE to secure either top or second place in market share in all of these businesses. In pursuing this ambition, he has sold 190 companies for \$5.5 billion since he became chairman in 1981, most of them in heavy industry. For \$10 billion, he has bought 70 technology and service compa-

Bouncing with Reebok

In America, where fit is fashionable, more and more yuppies are stepping out in Reebok sports shoes. Since 1983, when it had the inspiration to market the first shoe designed specifically for aerobics, Reebok's sales have grown more than 25-fold, to more than \$300m. Profits, too, are sprinting ahead. The lion's share of the money has gone to Pentland Industries, the British firm which financed Reebok's growth.

Reebok has been putting shoes on the feet of British runners since 1895. But the marque did not start its leap into the limelight until 1979, when Mr Paul Fireman, a Boston businessman, licensed American rights to the Reebok brand name and designs. Despite modest success, Mr Fireman ran short of cash two years later. This gave Pentland a chance to proffer cash and years of experience in producing footwear in East Asia.

Pentland bought 55% of Reebok USA for \$78,000. By 1985, when shares in

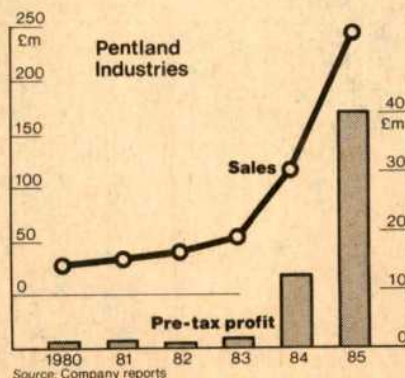
Reebok were put up for sale on America's over-the-counter market, the value of that stake had grown to \$150m. Today, Pentland's Reebok shares are worth more than \$600m, even though sales and dilution of its shares have cut its stake in the firm to 37%.

Reebok and Pentland owe it all to the sudden passion of American women for bouncing up and down in time to music. Their aerobics shoe promptly captured 70% of the market. Reebok has since used the momentum gained from aerobics to take big chunks of the markets for tennis and training shoes.

Reebok is now diversifying into basketball shoes, children's shoes (with the "Weebok" brand name) and sports clothing. By the end of 1986, it plans to launch a range of walking and other shoes. It has around \$100m in cash with which to shop for smaller companies.

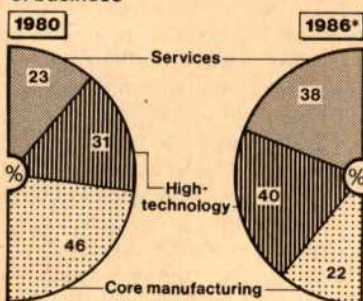
In Britain, Pentland is also trying to make the most of its success. It holds the rights to the Reebok brand name outside America, and is busily trying to build up sales of the shoes in Europe. From £750,000 in 1984, British sales of Reebok shoes have grown to around £9m a year. There seems room to grow further, particularly on the continent.

Pentland is simultaneously expanding the 25% of its business which does not come from Reebok. One success is Holmes, an American importer of fans and humidifiers. Holmes's turnover doubled, to \$30m, in the year after Pentland bought a majority stake in the firm in 1985—thanks in part to a fashion-setting range of pastel fans.



Going into service

General Electric's earnings by type of business



Source: Company reports

* Estimate including RCA

panies, including RCA (which adds \$12 billion to GE's sales of \$28 billion), Employers Reinsurance and Kidder Peabody, an investment bank.

More than 70% of GE's profits come from growth areas such as factory auto-

mation, medical systems, space materials, aircraft engines and financial services. Among the fastest growing are the financial businesses. Last year, they brought in net profits of \$406m, almost one-fifth of the total. GE is buying (for close on \$1 billion) three more financial companies, involved in container, rail and lorry leasing and servicing.

GE blames its slow sales growth on the wedge of asset sales since 1981. Acquisitions, especially RCA, will soon make up for that, it says. Net profit margins have improved, from 6.1% in 1980 to 8.3% last year. But return on equity, which had stayed close to 19% since 1981, slipped to 17.6% in 1985. To put that right, Mr Welch has begun to squeeze GE's new assets, starting with staff cuts and layoffs at RCA. He has also abandoned plans for a \$200m silicon-chip plant that RCA proposed to build with Japan's Sharp in Washington state.

a strong agricultural base and an economy still growing by 3-4% a year. Though this growth rate is low by past Thai standards, it is high compared with the current performance of its neighbours.

Tax breaks abound in the region. Malaysia has free-trade zones surrounding Penang and Kuala Lumpur for export-based industries. Both Malaysia and Singapore award "pioneer status" to technology-based firms. Those firms that qualify as pioneers have their corporate taxes waived for up to ten years. Thailand has a different tax exemption scheme, for periods of up to eight years.

In June, Singapore unveiled a plan to grant concessionary tax rates to firms that set up their operational headquarters on the island. Domestic income derived from research, marketing and administration at these OHQs will be taxed at 10% (against a corporate tax rate of 33%) an OHQ income from foreign sources will also be granted tax relief.

Foreign businessmen are giving the South-East Asians a sympathetic hearing. Japanese companies hit by the rising value of the yen, and electronics companies everywhere bruised by the 1985 slump in demand for personal computers, are looking for cheaper places to make their goods.

Much is being made of the recent shift by Data General of its international manufacturing headquarters from Hongkong to Singapore. Thailand brags that some 110 Japanese business projects were approved there in the first quarter of 1986, an increase of 23% over a year earlier. A Japanese ball-bearing group, NMB, plans to increase its investment in Thailand to some \$500m. Sandoz, a Swiss drugs group, is expanding its joint venture in Indonesia.

But these are scattered successes. Against them, foreign electronics, service and other companies complain about bad local telephone systems, poor technical expertise and red tape. They are also aware that incentives can vanish as quickly as they appear.

Foreign investment in South-East Asia

Pressing invitations

South-East Asian governments that once treated foreign investors almost as trespassers are today putting out the welcome mat. Cheap labour and rapidly growing textile, refining, chemical and construction industries for long helped the region to grow faster than almost anywhere else. But in the past couple of years, the economies of Indonesia, Malaysia, Singapore and Thailand have suffered from the heavy fall in commodity prices. In the Philippines, political convulsions have made matters worse. In trying to break out of this box, governments are offering ever more generous incentives to lure foreign investment.

Brigadier-General Lee Hsien Loong, the son of Singapore's prime minister, Mr Lee Kuan Yew, recently returned to Singapore from a tour of Britain and America. There he wooed foreign companies with offers of new tax incentives and talk of an infrastructure that is second to none. Singapore particularly wants to attract more foreign investment in the printing, electronics, health-care and financial fields.

In May, Indonesia liberalised its rules in an effort to reverse a three-year long decline in foreign investment. Foreigners will in future qualify for all the privileges granted local firms if they set up joint ventures with Indonesian investors (state or private) or sell more than half of the venture's shares on the local stockmarket. The number of sectors open to foreign investment has been increased from 475 to 926, though foreign companies still

cannot go into retail businesses like supermarkets or department stores.

Malaysia is moving in much the same direction. In early June, it gave Rothmans and ICI permission to retain control of their subsidiaries. The government has temporarily suspended its nationalistic New Economic Policy, which sought to boost the economic power of ethnic Malays at the expense of foreign investors as well as of ethnic Chinese and Indian citizens of Malaysia itself.

Teams from Thailand are also journeying abroad, Thailand offers cheap wages,

SINGAPORE



Big Mac, chips, and a tax break, please

Sotheby's

Lots of ideas

Since Sotheby's, the art auctioneer, passed into the hands of Mr Alfred Taubman, an American property developer, nearly three years ago, it has put archival Christie's in the shade. Sotheby's is expected to announce a record turnover for this year's auction season, now drawing to a close. But complaints are heard in the art world that the sophisticated auction house is being turned into a property shop and bank in the pursuit of profit.

Mr Taubman and a group of friends, including Mr Max Fisher and Mr Henry Ford, paid \$130m for Sotheby's. Mr Taubman himself owns 60%. The purchase was made just as the art market was reviving. Nonetheless, at least some of the credit for the auction house's recovery since then must go to Mr Taubman. (Sotheby's made its first loss, of £3m, in 1983.) Its share of the world auction market rose from 55% in 1984 to 58% in 1985, and its sales by 15% to £514m. Sales at Christie's increased by only 5%, to £370m, over the same period.

In achieving these results, Mr Taubman is changing auctioneering. A once amateurish business with a leisurely pace has given way to hard salesmanship and a new range of services to make buying easier at auction. His appointment of influential figures to the board has brought new business. They include Mrs ...in Getty, Baron Thyssen and Mr Henry Ford. Rumours that these new directors receive preferential treatment when buying and selling are quashed by Mr Tim Llewellyn, the managing director of Sotheby's in London.

Mr Taubman, a tough billionaire from

Detroit, still occasionally shocks staff at Sotheby's with comments like his recent remark that "selling art is much like selling root beer". But most employees say that higher salaries, profit sharing and management changes have created a more optimistic mood.

The man responsible for these innovations is Mr Michael Ainslie, the chief executive of the American holding company of Sotheby's and a businessman with a background in oil and property. Many of the company's smaller offices, especially in America, have been closed. Each department now has a business manager and there is closer communication between the group's senior managers around the world. All sales catalogues have been standardised.

Mr Ainslie is keener on selling more expensive lots than on simply selling more lots. He has cut the volume of sales in New York by 40% and in London by 20%. The amount of money that Sotheby's is prepared to advance to owners against reserve prices in forthcoming sales has increased substantially. Sotheby's is also starting to lend money on collections which will not be sold for

several years. (Most banks are unwilling to accept art as collateral.)

In America, Mr Taubman is developing the property division of Sotheby's. Sales of expensive homes were worth \$186m in 1985, and are expected to double this year. The boss also has plans to build 30 storeys of offices and flats above the York Avenue salerooms of Sotheby's in Manhattan. If this happens, it could dwarf the 242-year-old auction business.

Japanese investment

Over the Pyrenees lie the Andes

MADRID

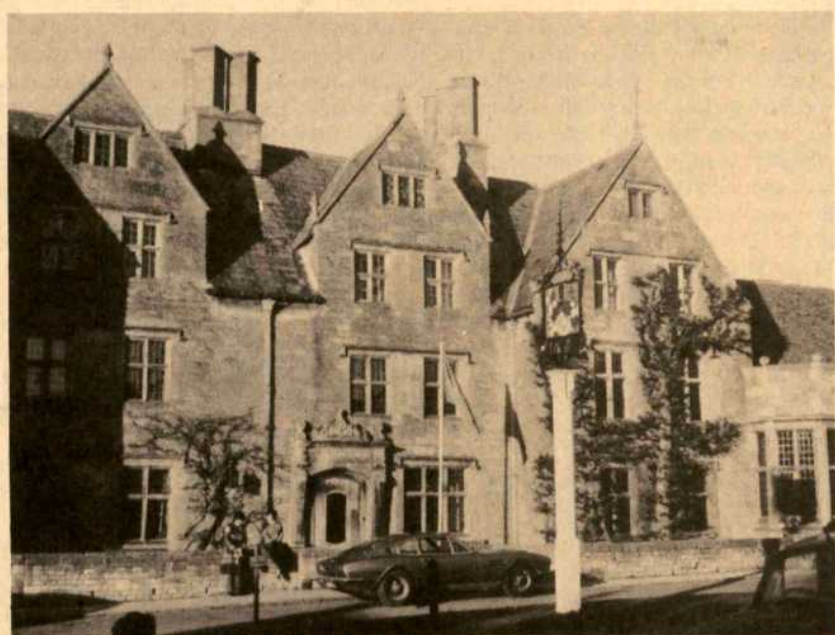
Despite vast differences of culture and language, Spain is quietly building one of Europe's closest business relationships with Japan. Spain is keen to acquire not-so-high Japanese technology suited to its present mix of lowish labour costs and 1970s-style factory automation. Japan wants manufacturing bases there now that Spain is an EEC member and that the sharp depreciation of the peseta against the yen has made exporting from Japan to Spain less attractive. Some Japanese companies are also looking to Spain as a bridgehead into Spanish-speaking Latin America.

One of the first Spanish companies to get Japanese investment was Acerinox, an integrated stainless steelmaker near Algeciras Bay—and last year one of the ten most profitable companies in Spain. With 64% of its shares held by Banco Espanol de Credito, 12% by Nissho-Iwai, 9% by Nisshin Steel and the rest by various private Spanish banks, Acerinox has posted profits in all but one of its 16 years of existence.

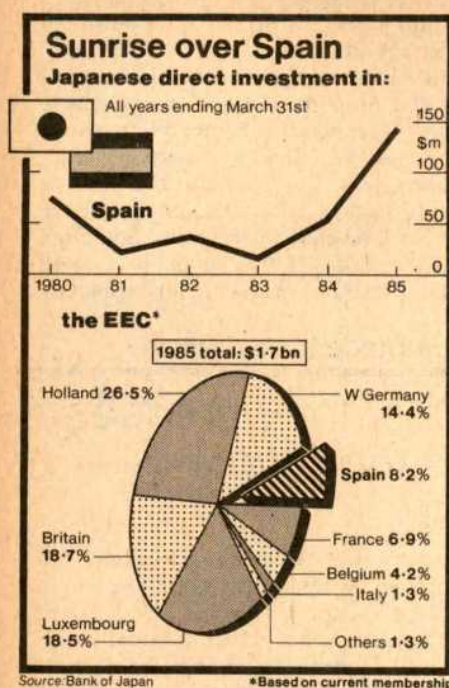
By the end of 1984, Japanese organisations had invested in more than 60 Spanish companies, 42 of them industrial. Although total Japanese investments in Britain, France or West Germany are bigger than those in Spain, many of them are mere assembly or marketing operations. It is claimed that more Japanese money has gone into actual manufacturing (eg, steel, chemicals, electronics and capital goods) in Spain than in any other continental European country.

This decade, two of Japan's leading financial institutions—Bank of Tokyo and Sumitomo Bank—have set up subsidiaries in Spain. Suzuki and Yamaha now assemble motorcycles in Spain. Suzuki also makes a sort of jeep. Yoshida Espanola, wholly-owned by Yoshida KK, dominates the local zip market.

The newest and most dramatic Japanese projects in Spain are in commercial



One of the delights of the English countryside is the number of high-quality small private hotels that have sprung up in recent years. From Sharrow Bay on the shores of Ullswater to Ston Easton among Somerset meadows, these outposts of fine food and crisp linen have persuaded many rich visitors to Britain to spend more of their money outside London. The Savoy Hotel group has now bought the Lygon Arms (see above) in sleepy Broadway, in Worcestershire, a model for many of these hotels, for £4.75m. At nearly £80,000 a room, that is not much less than the £107,000 a room that Hotels de Meridien, a subsidiary of Air France, paid in April for the New Piccadilly Hotel in London's West End. The high price threatens to persuade Britain's other entrepreneurial small hoteliers to sell out to big chains. Could they keep up the exceptional standards these institutions have established? Egon Ronay's Lucas Guide says that bedrooms at the Lygon Arms (in the same family's hands for 82 years) "feature fresh flowers and a host of cossetting extras".



vehicles and industrial electronics. An agreement has recently been reached between Motor-Iberica, a Barcelona-based van and tractor producer (controlled by Nissan since 1980), and Kubota, Japan's biggest maker of farm machinery. The plan is for Kubota to take a 15% stake in Motor-Iberica's tractor division and move it to Madrid, where the Spanish company has a factory running below capacity with plenty of spare labour. The Japanese trading company Marubeni will have a 5% stake in the Madrid plant and Motor-Iberica 80%. This will be Kubota's first production base abroad.

Nissan's total investment in Motor-Iberica amounts to \$283m—the largest sum spent by any Japanese company in Spain. So far, much of this has gone on mopping up losses. Last year, Motor-Iberica managed to lose nearly \$60m. One consolation for the Japanese is that the other motor manufacturer that Spanish officials once tried to get Nissan to invest in—SEAT, the car company acquired by Volkswagen earlier this year—had even bigger losses (\$212m) in 1985.

Japanese investors may find profits easier in industrial electronics. In June, Fujitsu signed an agreement with Telefonica, Spain's (partly) state-owned telephone and telecommunications group, for a joint venture owned 60% by Fujitsu and 40% by Telefonica. The new company will assemble a wide range of computing, data-transmission and automated office equipment at factories in Malaga and Madrid. Telefonica has strong links with several Latin American countries and Fujitsu thinks that the Madrid deal will be a useful boost to doing business in Latin America.

El Al

But for the Sabbath

TEL AVIV

Those Americans who are crossing the Atlantic this summer are being more discerning, switching to airlines they believe have the strictest security. That includes El Al, the Israeli state-owned airline, which provides its own security screening rather than relying on regular airport checks. So far this summer, 40% fewer Americans have visited Israel than in 1985, but El Al's American traffic is down by only 15%.

Not long ago, the airline's name was said to stand for "every landing, always late". El Al has worked hard to erase this image of unreliability and inefficiency. The results are encouraging.

● In 1985-86, the airline carried a third more passengers than in 1978-79, but with 40% fewer employees. Productivity (passenger and freight traffic per employee) is the fourth highest of IATA's 143 members.

● El Al now boasts an average passenger load of 74% of capacity—one of the highest in the world and well above the IATA average of 63%.

● The airline made an estimated operating profit of \$13m in 1985-86 (roughly the same as in 1984-85), compared with an average annual loss of more than \$30m in the six years to 1983-84. However, after paying interest on its \$350m debt, it made a loss of around \$10m.

The productivity gains were not won easily. In 1980, McKinsey, an international management-consulting firm, was called in. On its advice, the workforce was reduced from 6,100 to 4,700, wages were cut and unprofitable routes closed. But El Al's then-militant employees refused to play ball. A strike in September 1982—the 69th in ten years—persuaded

the management to shut the airline and place it in temporary receivership. In January 1983, El Al took off again under new management and with a new labour agreement, which slimmed the workforce by a further 25%, cut real wages and banned unofficial strikes.

Three and a half years later, the airline remains in "temporary" receivership. The government set two conditions before the company could be taken out of receivership. First, better labour relations. The past three and a half years have proved remarkably peaceful, but progress towards signing a new long-term labour agreement is being delayed by the government's freeze on public-sector wages. Second, that El Al should report an overall profit—ie, after interest payments. This looks unlikely in the near future unless the government writes off some of its debt. It needs to make a decision soon: receivership is holding back El Al's plans for expansion.

The government has already helped the airline. In 1983, it bought six new Boeings, which El Al operates but has not paid for. It also protects the airline against competitors by forbidding charter flights to and from Israel to operate from airports within 150 kilometres of any destination served by El Al.

More help could be on the way to compensate El Al for a unique handicap. Since 1982, Israeli law has prohibited the airline from flying on Jewish holidays and on the Sabbath. This legislation came into effect in 1982 when the then prime minister, Mr Menahem Begin, needed the support of a small ultra-religious party to obtain a majority in the Knesset. Although the government has agreed to compensate the airline for the lost revenue, the sum is still under negotiation. Some estimates put the total loss to El Al as high as \$30m a year—more than enough to put it into profit.



The guards outnumber the pilots

FINANCE

America's banks struggle and thrive

SAN FRANCISCO

Brokers who thought that Bank of America had lost its capacity to shock them are still speechless. On July 16th, America's second-biggest bank produced second-quarter results that took away the breath even the most hardened professionals.

the three months to June 30th, the bank lost \$640m after tax—almost twice its loss for all of 1985.

The Californian bank blamed the figures on a \$388m charge for bad loans, mainly in energy and commercial property, and said that its earlier \$1.2 billion estimate for total loan write-offs in 1986 must be raised. Though the bank spoke cheerily of returning to profit in the second half of 1986, Moody's Investor Service, the credit-rating agency, was sceptical. It lowered Bank of America's rating on some \$5 billion of corporate debt. Investors, jaded by bad results from companies like IBM, paid more heed to the chirpiness from San Francisco. The bank's share price ended the day only $\frac{1}{8}$ of a dollar down at \$14 $\frac{1}{8}$.

Bank of America is not the only financial institution to find the going hard. Banks in Texas, Oklahoma, Louisiana and other oil states are stuffed with loans companies and individuals struggling to survive with crude oil below \$10 a barrel. They are losing deposits and beginning to stumble. Bank regulators closed the First National Bank of Oklahoma City on July 14th. With assets of \$1.6 billion, it ranks as the biggest American bank failure after Franklin National

Bank, closed in 1974. It is much larger than Penn Square Bank, its former neighbour which caved in four years ago.

Other bigger banks have also tripped over energy lending, but been helped to keep their footing. Seafirst Corporation in Washington state was bought by (of all banks) Bank of America. Continental Illinois was, in effect, taken over by the federal government. First National Bank of Oklahoma has also quickly found a samaritan. First Interstate Bancorp of Los Angeles has taken it over, under a law allowing out-of-state rescues which expired on July 15th. First Interstate is assuming \$1.5 billion in deposits and other liabilities and will buy \$1.2 billion of the bank's assets. The Federal Deposit Insurance Corporation is to pay First Interstate \$72m in cash for its pains.

Most observers believe that no other oil-state banks as big as First National are in serious trouble—yet. But elsewhere, less dramatically and for different reasons, America's largest bank, New York's Citicorp, produced its third consecutive quarter of diminishing profits. Earnings were hit by wisely increased loan-loss reserves, stagnant profits in its institutional division and sharply lower earnings on investment banking.

A few years ago, such a string of bad banking news would have sent the markets into a tizzy and brought forth dozens of doomsayers. Perhaps it should today. But Wall Street has lots of other things to worry about, and other banks, perverse-



Shadows lengthen at Bank of America

ly, are doing good business (see table). It is no coincidence that many of them are in the state of California.

As Citicorp and other money-centre banks are realising, retail banking is where profits lie today. So California, America's biggest retail market with nearly \$100 billion in customer deposits, is rated particularly attractive banking territory. Other south-western states are changing their laws to allow regional interstate banking, too. While Bank of America, which once claimed about a third of the California market, struggles, other banks are fighting for its domain.

The merger of Wells Fargo and Crocker National Bank (sold by Britain's Midland Bank) in February has stoked the competitive fires. The merger pushed Security Pacific from second into third place in many parts of the state. Security Pacific is countering with plans to build 50 new branches over the next five years and to buy still more. The additions mark a dramatic reversal of strategy at a bank that has lopped some 20 branches off 616 over the past five years.

Security's chairman, Mr Richard Flamson, says that size is essential in a deregulated retail banking market, where the eventual survivors will be the banks large enough to drive costs down furthest. Its

Profits of big American banks, \$m

	1985	1st quarter 1986	2nd quarter 1986	% change 2nd quarter 1986 on 2nd quarter 1985
California-based				
Bank of America	-337	63	-640	(-89)†
Wells Fargo	190	52	66	+39
Security Pacific	323	88	94	+18
First Interstate	313	79	na	na
New York and other				
Citicorp	998	270	235	-6
Chase Manhattan	565	144	146	+11
Manufacturers Hanover	407	102	94	-5
J P Morgan	705	234	237	+51

†increased loss

southern California neighbour, First Interstate, has amassed a large war chest for acquisitions. Taking over First National in Oklahoma was just part of its strategy. In California, the bank is preparing a "product offensive" to push back both Wells Fargo and Bank of America. First Interstate's chairman, Mr Joseph Pinola, reckons he can entice uncertain Crocker customers away from Wells. Security Pacific, like First Interstate, has new products to go along with its new branches.

All California's banks are hoping to lock in their retail customers before the

Yankees arrive in force, led by Citicorp and Chase Manhattan (which barely changed their profits this quarter over last). Though a bill to allow these outsiders to open full-service banks in the state is currently stuck in the California legislature, few doubt that the retail market will eventually be opened to them. Will California remain the El Dorado that banks heavy with loans to third-world countries, energy companies, farmers and ill-informed real-estate speculators are anxious to escape to? Not if Bank of America is anything to go by.

South African banks

Feeling the strain

JOHANNESBURG

Anti-apartheid pressures, a depressed domestic economy and some poor management are putting South Africa's banks through the wringer. Among those most affected is Nedbank, the country's third biggest bank with assets at the end of March of R13.4 billion (then \$6.4 billion).

Until about 18 months ago, Nedbank

Chicago of the Orient

Singapore wants to play Chicago to Tokyo's New York: to become an acknowledged capital of financial-futures trading to complement the region's acknowledged capital of money. The soaring yen has helped increase business on its International Monetary Exchange (SIMEX), but rival markets are expanding fast

SIMEX is launching lots of new products. Early in July, the exchange introduced a sterling futures contract. On September 3rd, it plans to start a contract based on Japan's Nikkei stock average. A United States treasury-bond contract is scheduled for October; a Swiss franc contract is likely later in the year. Eurodollar and currency options may become available in the first quarter of 1987. There is talk of a contract on a Singapore stock exchange index, too. These will join SIMEX's existing contracts in yen, D-marks, gold and 90-day Eurodollar rates.

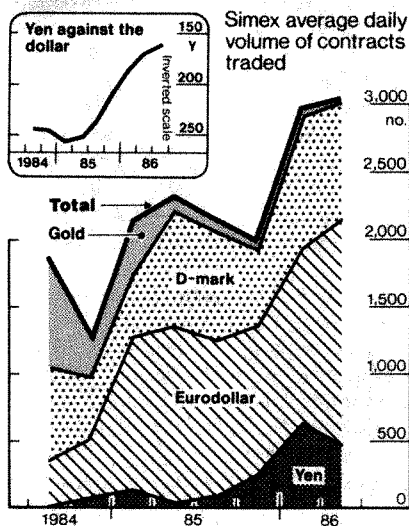
This burst of activity follows a slow start for Asia's first financial-futures exchange modelled on Chicago's. Almost two years old, SIMEX attracts only a small fraction of the world's deals in financial futures. Trading volume during its first year averaged 2,000 contracts a day.

The sharp rise of the yen against the American dollar (up 50% over the past nine months) and its increased volatility, however, have made Americans and Europeans more interested in an Asian base for hedging and speculating while Chicago and London sleep. When the five biggest industrial economies agreed on September 22 1985, a Sunday, to coordinate efforts to bring down the dollar, Chicago dealers suddenly remembered tiny SIMEX on the other side of the world. Their business helped boost Singapore's volume by 60-70% that day. Big swings in the yen pushed daily trading there to 7,663 contracts in January.

Since then, Singapore has traded about 3,000 contracts a day. Yen contracts, almost non-existent a year ago, account for a sixth of that and Eurodollars for a little over half (see chart). Though trading is still lighter than on the four-year-old London International Financial Futures Exchange, where more than 4,500 contracts on Eurodollars

alone are bought and sold most days, and minuscule compared with the 46,000 Eurodollar contracts traded on the Chicago Mercantile Exchange's International Monetary Market (IMM), the increased volume has inspired SIMEX to launch its new products.

Singapore has two main advantages over aspiring futures exchanges in Hong-kong, Australia and Japan. First, its



head start in a range of international products. Second, its tie with the IMM, the world's largest financial-futures exchange. Singapore's Eurodollar and currency-futures contracts are coupled with Chicago's by a unique link that enables traders to sell a contract on one exchange that was bought on the other. About a third of SIMEX is offset in this way. The link offers traders in America and their customers, including financial institutions, a way of getting in and out of the IMM when Chicago is closed. It also gives

traders in Singapore access to liquidity far greater than that of wee SIMEX.

Singapore's member firms say that their clients have doubled. Customer orders, as opposed to deals by market members on their own account, currently make up 57% of trading volume, compared with 52% in 1984. Almost half the customers are Asian, more than a third North American, and an eighth European.

Despite its recent growth, though, SIMEX expects to report a loss this year after it has paid for promoting and setting up the new contracts. The exchange reckons it needs to quadruple daily trading volumes to break even. That will be hard to do.

The new Nikkei contract should be a big draw (the index itself has risen by 70% this year, in dollar terms) but investors may be reluctant to trade it without a mutual offset in Chicago. American regulators are loth at the moment to let their exchanges offer contracts on foreign stock indices. Most Japanese investors are barred from trading on SIMEX anyway. Securities houses and banks can do it, but only if the business does not originate in Japan.

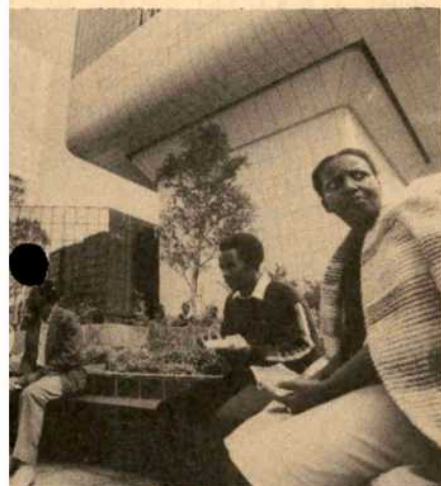
Meanwhile, existing futures exchanges are expanding: Sydney's, for one, where there is talk of a new United States treasury-bond contract that could prove SIMEX's first head-on challenge in a similar time zone. And new exchanges are being set up. Osaka, for instance, plans to launch a contract on a narrower range of Japanese equities than the one that SIMEX proposes.

Until recently, Japan's tight rules have kept most financial-futures trading on foreign soil. That is beginning to change, and, as it does, SIMEX risks losing the initiative. Its biggest handicap may be Singapore itself, with its restrictive financial environment, overvalued currency and under-performing economy. Without further changes, even SIMEX's new contracts and lifeline to the IMM may not be enough to keep the would-be Chicago of the east in serious business.

was the glamour boy of South African banking. Today, it is an embarrassment for the government and other banks. It was further humbled this week when it had to rescue Triomf, a fertiliser producer that is one of its biggest debtors. Nedbank plans to write off some of the company's debt, estimated at around R350m, and convert most of the rest into a 75% shareholding in ailing Triomf.

South Africa's uncertain political future and the unilateral standstill on repayments of external debt it imposed last August have strained local banks' ties with the outside world. Although foreign banks continue to process normal South African financial documents, they are wary of any transactions involving risk. Most confirm credits and accept bills only for established customers—and even then usually for a maximum of six months. Foreign-exchange exposures have been trimmed, too, especially on forward deals where the risks are greatest. A senior official in one Johannesburg bank reports that he got a "very friendly" reception from foreign bankers on a recent overseas trip—until talk turned to business, when their reaction was "very, very cool".

Nedbank's mistakes have exacerbated foreign nervousness. Its expansion abroad a few years ago pushed foreign assets up to more than a third of the total. Taking advantage of relatively low over-



No free lunch for the banks

seas financing costs, Nedbank made the classic banking error of borrowing short and lending long.

As the only South African bank with much business through branches overseas, Nedbank was most vulnerable when foreign banks started calling in their loans last August. It has also suffered heavy losses on its holdings of South African public-sector bonds, which were accumulated in the mistaken expectation of a big drop in long-term interest rates.

Nedbank has recently been doing more

Bankers in the dock

TOKYO

The goings-on at Heiwa Sogo, the battered Japanese mutual savings bank, have all the elements of a first-class financial scandal: gangsters and allegations of political slush funds. At least 11 people were under arrest by July 13th. They include one current and several former officers of the bank charged with breach of trust. The best known is the bank's former auditor and so-called "shadow" president, Mr Shigeaki Isaka. Heiwa has allegedly made improper loans amounting to some Y190 billion (\$1.2 billion at today's exchange rates) since 1982. It threatens to prove Japan's biggest postwar banking mess.

The affair may be remembered less for the local colour than for other reasons. Foreign bankers were already complaining that the Japanese authorities subject foreign banks to much closer scrutiny than they do local ones. The Heiwa affair underlines their point. Heiwa's troubles may also presage the collapse (or what passes for collapse in a country that has not allowed a bank failure since 1945) of others among the 69 *sogo*. These banks are already regarded as the weakest part of Japan's financial system. The liberalisation of interest rates on small deposits, due in 1987, may make competition too hot for some of them. Heiwa, the tenth biggest *sogo*, is being rescued by big Sumitomo Bank.

Sumitomo was keen to extend its local operations and knew that Heiwa had lent too much. It may not have realised just how much, until it hired private detectives to find out. The formal charges lodged against Heiwa by the district prosecutor allege that it made loans of Y11.6 billion to a property company to buy a chunk of forested mountain valued

at only Y3.6 billion; of Y4.1 billion to buy a folding screen valued at Y300m; and of Y1.5 billion to buy an uninhabited island worth Y500m.

What is seen as scandalous is not that a *sogo* was overlending or even lending to property speculators instead of the small businesses to which it is supposed to lend. It is that neither the Finance Ministry nor the Bank of Japan flashed strong warning signals. Their inspections in 1983 and 1984 did not unearth the trouble. The supposedly dodgy loans were turned up by investigators from the local



district prosecutor's office. Officials did not even start full-scale digging until last August.

True, the ministry lacks powers to obtain many documents if a bank does not want to give them up. Records were allegedly faked to evade the regulators' scrutiny. Political pressure may have been exerted on ministry officials; the bank itself employs many former bureaucrats. All this worries those who believe that competent bank regulation is necessary if Japan is to become a great international financial centre.

City salaries

Sky-high and rising

Mr Peregrine Moncreiffe—Eton and a third-class degree in history from Christ Church, Oxford—will this year be paid about £1m (about \$1½m) to run E. F. Hutton's Euromarket operations in London. That salary is raising comment even in financial circles. It signals another round of musical chairs among Eurobond *prima donnas* as firms try to buy the men and women who, they hope, will take them a step up in Euromarkets.

Up to now, only a dozen or so have earned over \$1m a year in these markets: trading superstars and the top men at American investment banks. Those of Mr Moncreiffe's stature—his previous job was head of gilts and treasury-bond trading for Shearson Lehman International—

to help itself. A R345m rights issue earlier this year, hefty bad-debt provisions and a management shake-up which included the departure of its cocky chief executive, Mr Rob Abrahamsen, have all been useful changes. As a result of the rights issue, Old Mutual, South Africa's biggest life insurer, now has a 52% stake in the bank. But confidence remains fragile. When AA Mutual, an insurance company, went to the wall recently, many Nedbank depositors—confusing AA Mutual with Old Mutual—rushed to withdraw their cash.

With heart-stoppers like that, it is small wonder that a number of Nedbank customers and correspondents prefer to do business with its two bigger competitors, Barclays National and Standard. Each has the advantage of a respected British controlling shareholder. But not, perhaps, for long. Both Barclays Bank and Standard Chartered hope soon to reduce their dwindling stakes further.

FINANCE

could typically expect \$400,000-600,000.

One reason that firms now have to pay more is to break the "golden handcuffs" put on promising recruits in the last round of trader-poaching. Mr Moncreiffe, for example, was due to receive about \$750,000 in April 1987 as the last instalment on the sale of his share of Lehman Brothers to American Express.

The American investment banks do not reveal their profits in London, but, according to sources within them, Hutton earned about \$8m in the Euromarkets last year. Shearson Lehman earned \$15m-20m, and Morgan Stanley \$70m or so. Catching up with such giants will not be easy for Hutton: other retail-orientated investment banks, like Dean Witter and Pru Bache, have tried and so far failed.

Hutton is not the only firm trying to beef up its Euromarket staff. The same week that it lost Mr Moncreiffe, Shearson Lehman lost three specialists in interest-rate and currency swaps to Barclays de Zoete Wedd, for salaries totalling £500,000. Another recent poacher is Kleinwort Benson. When it hired a team of 13 traders from Chase Manhattan, it paid some of them £250,000 plus the same again as a "golden hello". Kleinwort's chairman, Mr Michael Hawkes, earned £240,000 last year.

Salaries in the financial boiler-room seem to be going up faster than those at the top. Experienced traders now earn, including bonus, anything from \$75,000 to \$250,000. "Experienced" means at least three years, and at least 25 years old. The best traders can earn \$500,000. Experienced salesmen generally earn \$50,000-200,000. But at Morgan Stanley International, one equity salesman, who is paid on commission, earned over \$1m last year selling to private clients.

The wage bonanza will not last. High-priced talent does not always deliver a good return on investment. Today's bull markets make it easy for traders to earn for their firms the expected five to ten times their salary. When bull turns to bear, many of the new recruits could find themselves newly unemployed.

Mexican debt

The end of the tunnel?

MEXICO CITY

Mr Gustavo Petricoli, Mexico's new finance minister, returned home from Washington on July 15th with the outline of a new \$1.5-billion agreement with the IMF. The package, if finally approved, is a big negotiating achievement for Mexico and a significant break with past insis-

Taking the rap

NEW YORK

When is a company responsible for the illegal acts of its employees? Shearson Lehman Brothers, an American investment bank, is about to find out. The firm and one of its former managers have been indicted by a federal grand jury in Philadelphia in a case involving the alleged laundering of \$1.2m. Lawyers say their clients are not guilty.

Shearson Lehman is the third big financial firm recently to face criminal indictments for the supposed sins of its employees. Last year, E. F. Hutton and First National Bank of Boston pleaded guilty to charges and were fined.

Criminal indictments are mainly directed against things like bribery and money-laundering which may abet big-time criminals, especially in the drug trade. The mounting backlog of insider-trading cases (16 so far this year, compared with 20 in 1985 and 13 in 1984) has not involved criminal charges against employers. But Wall Street lawyers

think the scope of criminal charges is widening and are also cross that laws designed to catch racketeers are being used to catch financiers.

The Securities and Exchange Commission (SEC) has long had the authority, and used it, to bring civil actions against companies whose employees run amok. A firm generally makes what lawyers call a "good faith" defence against the charge, attempting to prove that it has put in place internal systems to keep an eye on employees. But the SEC can bring only civil actions, not criminal. Other authorities are not so inhibited.

For a criminal charge to stick, it must be proved that a firm profited from its employee's illegal scheme, participated in it, condoned it or at least knew of it. Lawyers reckon that some criminal charges are being brought not because the authorities expect to be able to prove them, but to scare financial firms into being more vigilant against fraud.

tence on austerity programmes for the Fund. Mexican officials reckon it could be signed as soon as next week.

Officials say that the IMF has acceded to two of Mexico's central demands: emphasising economic growth over inflation and accepting that halved oil revenues are the cause of much of the country's budget difficulties. The package will not, it seems, require immediate severe budget cuts. It will set a goal of 3-4% economic expansion next year, a sharp reversal of the expected 4-5% negative growth rate. Conservative economists say that this strategy could propel Mexico into triple-digit inflation for the first time since 1983. They will find it harder to win a hearing if the IMF puts its imprimatur on the plan.

The draft IMF accord was submitted to Mexico's president, Mr Miguel de la Madrid, in a cabinet meeting on July 16th. In New York, meanwhile, Mexican negotiators and IMF officials reviewed the agreement with Mexico's main bank creditors. The banks are expected to deliver at least \$2.7 billion in new loans—a request approved in principle by the money-centre lenders but resisted by many American regional banks.

Mexico is also asking banks to commit themselves to lend more fresh money in 1988-89 if it remains in compliance with the terms of its 18-month IMF accord. In addition, Mexico wants a third rescheduling of about \$50 billion owed to banks by the government. Bankers will be asked to slash the spread on the restructured debt supposed, under the terms of Mexico's last rescheduling a year ago, to rise from $\frac{1}{8}$ of a percentage point above Libor this

year to $1\frac{1}{8}$ in 1987. Mexicans also hope that bankers will postpone again a \$950m repayment originally due in April and pushed forward then to October. Discarded, apparently, are suggestions that banks either capitalise some interest payments or peg rescheduled loans to radically-discounted interest rates.

Other money hangs on the IMF agreement, including some \$1.2 billion in new loans from the World Bank and the Inter-American Development Bank and rescheduling of roughly \$1 billion owed to official trade-finance agencies. America's Commodity Credit Corporation is expected to lend about \$900m to pay for Mexico's staple food imports this year.

A novel aspect of the IMF agreement, as



Petricoli brings home the goods

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FINANCE

described in Mexico, is a commitment by creditors to adjust new lending and economic performance expectations almost automatically to changing world oil prices. If oil prices fall further during the first nine months of the IMF agreement, Mexico will be eligible for additional credit (but will pay more if they rise). Mexico will also be allowed to exceed projected deficit estimates if its oil income drops drastically.

In return, Mexico is promising to trim subsidies, dismantle more state industries and check capital flight by maintaining realistic interest and exchange rates. In Geneva this week, fulfilling its pledge to expose its long-protected economy to foreign competition, Mexico submitted a list of planned tariff reductions to the GATT, its final step towards full membership of the organisation.

Specific targets for inflation and budget deficits have yet to be revealed, or even perhaps agreed. The IMF is believed to want Mexico to reduce its deficit from 13% of GDP this year to 6-8% by the end of 1987, and to reverse the trend towards accelerating inflation, now about 85%. Neither seems unreasonable.

Standard Chartered

Pao! Lloyds ko'ed

Standard Chartered's narrow defeat of the unwanted £1.3 billion (\$1.9 billion) bid from Lloyds Bank on July 12th is not the end of the story, but its beginning. Standard staved off Lloyds by claiming that the clearer would destroy its unique character as a bank with a valuable franchise in 60 countries and sell off some of its undervalued assets. Standard's three main white knights—Sir Yue-Kong Pao, Mr Robert Holmes à Court and Tan Sri Khoo Teck Puat—now control about 27% of its shares. Some fear they may try to do some of the things Lloyds was supposed to have had in mind.

Mr Michael McWilliam, Standard Chartered's group managing director, promises that there will be "no car-boot sale" of Standard's assets. He thinks the new shareholders will speed up changes the bank itself had decided to make and force it to focus more on profitability.

One change is to make the Asia-Pacific region Standard's priority, especially Hongkong, where it plays second fiddle to the Hongkong and Shanghai Banking Corporation. It sees at least two ways of building a rival to the Hongkong Bank's successful 60%-owned subsidiary, Hang Seng Bank. One is to seek a listing on the Hongkong Stock Exchange and float off the bank's domestic retail operations there; another to buy a local Chinese



McWilliam and Pao: smiling now

bank. Similar listings may be sought on other regional exchanges.

In America, Standard is also likely to float off at least a chunk of its profitable California subsidiary, Union Bank. Banking in black Africa is the most profitable part of the business, returning 30% on capital north of the Limpopo—few big changes there. Standard Chartered aims to reduce its shrinking stake in South Africa's Stanbic, now 39%, to 20-25%.

All this smacks of temperance and sweet reason. But Standard Chartered has exchanged some 90% of its British institutional shareholders for a fistful of fierce entrepreneurs. Hongkong's Sir Yue-Kong Pao is the world's biggest private owner of ships and much else besides; Tan Sri Khoo is a restless Malaysian ex-banker, whose outside interests include 28% of Exco, a British financial-services company; and Mr Robert Holmes à Court is Australia's best known takeover muscleman. They did not stump up more than £330m to lose it backing bosses who have yet to prove they can win anything other than a bid defence. By July 16th, the new shareholders had, in fact, lost some £35m, as Standard Chartered's share price predictably fell. They plan to make it back, and more.

Mr Holmes à Court, an old customer of Standard Chartered, seems unlikely to retain his 7.4% of the shares for long. Tan Sri Khoo, twice disappointed in bids for a Hongkong financial base, has secured one with his stake of just under 5%. He may also have eyes on a special piece of whatever Standard floats in Singapore and Malaysia. Sir Y. K. Pao, long in the Hongkong Bank camp, has many reasons to value the choices which his 14.9% of Standard Chartered opens up. Among them is controlling a spun-off Hongkong version of Standard Chartered.

Standard's managers want to persuade its knights, especially Sir Y. K. Pao, that while they might make more money in the short term by splitting up the bank, long-term profits lie in staying international and judiciously "realising value" here and there. They will need better luck persuading new shareholders than they had with the old. And other potential bidders, wiser after Lloyds Bank's mistakes, have not gone away.

Philippine stockmarket

Boomlet after Marcos

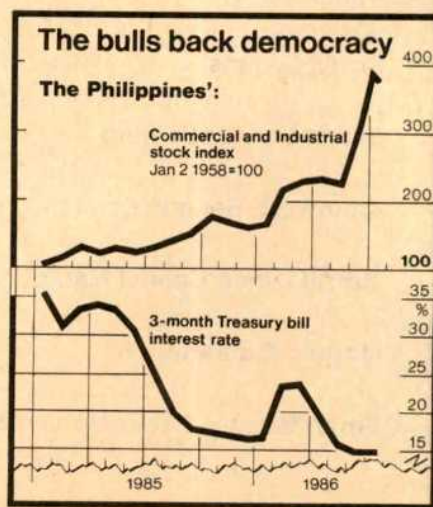
MANILA

The dramatic bounce in share prices on the Philippine stockmarket that followed the fall of the Marcos regime on February 24th has proved more than a one-day wonder. Manila's Commercial and Industrial index hit an all-time high on July 14th of 391, with the buying concentrated on a few blue chips.

The last time Manila was popular with foreign investors was in the mid-1970s at a time of booming metal prices: the country is a copper producer. James Capel, a British stockbroker and the foreign f most actively promoting the market bullish for other reasons now. After a near 10% contraction in real GNP in the past two years, the scope for recovery is great, with interest rates and inflation both down sharply and the peso stable. Blue-chips like Philippine Long Distance Telephone (PLDT) are still trading at a price-earnings ratio of less than 3. Optimism was reinforced by this month's abortive coup: the market stalled for only a day.

The snag for investors is that fewer than 15 companies are actively traded on Manila's two stock exchanges, though 119 are listed. The government hopes to broaden the stockmarket's base. One way is to privatise the almost 100 companies controlled by the state. But this will take three to five years.

For the moment investors have to live with what is, by international standards, a narrow market. Turnover in Manila averages only \$2m a day, though this is much higher than the paltry \$25,000 bef February. Another \$2m is done in New York, most of it in foreign investors' current favourite, PLDT.



SCIENCE AND TECHNOLOGY

Sometimes, the only safe blood is your own

BETHESDA, MARYLAND

In April 1985, America began testing blood donors to screen out those who had formed antibodies to the AIDS virus. These tests have made blood transfusions much safer. A panel of experts convened by the National Institutes of Health this month put the risk of getting AIDS from a transfusion at about one in 10,000—smaller than the risk of dying from the complications of anaesthesia. But why does contaminated blood leak through?

The NIH panel reckons that fewer than 120 of the 8m Americans a year who give blood carry the AIDS virus. Most slip through because they are in the early stages of infection, before the antibodies picked up by the screening tests have had a chance to form. The impact of the contaminated blood is magnified by the modern pattern of transfusions. Hospitals seldom transfuse blood whole. They prefer to break it into components—such as red cells, white cells or platelets—and administer whichever is needed. The result is that for every unit of tainted blood used, at least two or three people are exposed to the AIDS virus.

The NIH panel doubts whether the blood supply can be made completely safe; so it is recommending the use of "autologous donation"—the practice of donating your own blood for your own use—whenever possible. This can be accomplished in several ways.

One is to save your blood before an operation. Blood can be stored for 42 days, which means a typical patient could put away as many as six units in advance—twice as many units as a patient generally needs during an operation. This option is not only for adults in rude health. Doctors have found that children as young as eight—and many 70-year-olds with heart disease—can donate safely on their own behalf, providing they take iron supplements to prevent anaemia. The proviso is that the donations are timed so that the last deposit is made at least three days before surgery.

There are two other options. One, known as haemodilution, is to take several pints of blood from the patient at the

start of an operation, replace the blood with sterile saline (salt water) during surgery, and put the blood back inside its owner afterwards. This helps provide the patient with a full complement of oxygen-carrying red cells when he leaves surgery. The diluted blood lost during surgery is less rich in such cells.

The second option is to make sure that the blood lost during surgery is not wasted. Here the patient is not given saline. Instead, doctors suction up the blood the patient loses during surgery, filter or wash it chemically, and return it to the bloodstream as it is needed. This technique cannot be used with abdominal operations because of the likelihood of bacterial contamination from the bowel.

The Fairfax Hospital in Arlington, Virginia, uses the suction technique routinely in open heart surgery. The result has been a big reduction in the amount of blood patients need from blood banks, and fewer of the complications—such as fever and low blood pressure—that slow post-operative recovery.

These are bonuses. The main advantage of using autologous blood is the protection it offers against infection—and not just infection with AIDS. A statistically bigger threat is non-A, non-B (NANB) hepatitis. Of the 3m-4m Americans a year who have transfusions, 7-10% subse-

quently develop hepatitis, of which 90% is the NANB variety. The disease is not always serious, but it can cause chronic inflammation of the liver and cirrhosis. In 1985, for example, the victim of a car accident who received a single unit of NANB-contaminated blood later needed a liver transplant to save her life.

Scientists know relatively little about NANB hepatitis. They do, as its name implies, know that it is neither type A nor type B hepatitis. They do not know exactly which infectious agent—or agents—to blame for the disease. American blood banks will shortly start to screen donors for NANB hepatitis, although the tests envisaged are far less reliable than those used for AIDS or for other kinds of hepatitis. On one estimate, the tests will disqualify up to 5% of potential blood donors and push up the price of blood, but still miss two-thirds of donors carrying NANB hepatitis.

All of which helps to explain why autologous donation has won the endorsement of the American Red Cross and the American Association of Blood Banks, as well as of the NIH panel. These organisations do not, however, recommend that people have their own blood frozen against the possibility of future illness (a typical commercial price: \$250 a pint). Nor do they recommend that patients ask friends or relatives to provide blood. Studies of such "directed donations" have shown them to be no safer than blood donations as a whole. They could be less safe: people are sometimes too embarrassed to admit to relatives that they have used intravenous drugs, or had a homosexual encounter.

Some blood is safe enough to bank on



Batteries

Lovely lithium

The battery industry has a love-hate relationship with metallic lithium. Love, because the metal is a superb negative electrode, or anode: the ease with which lithium surrenders electrons makes for cells with a high energy density. Hate, because lithium is highly reactive: it can react with moisture in the air to form caustic lithium hydroxide and explosive hydrogen gas. Making batteries with the stuff means creating special conditions where the relative humidity is kept below a Saharan 3%.

Non-rechargeable batteries, known as primary lithium cells, have nevertheless sold well over the past decade, mainly because they last longer than standard alkaline and carbon zinc batteries. When a lithium cell is not being used, its charge-carrying medium, the electrolyte, oxidises the lithium anode, coating it with a "passivation layer" of oxidised lithium. This seals the anode from charge-leaking reactions, just as an air-oxidised layer protects an aluminum roof.

The passivation layer helps long life, but hinders attempts to make a lithium battery rechargeable. For a cell to be rechargeable, its electricity-producing activities must be capable of being driven in reverse by applying an external current. At a lithium anode, this requires plating free lithium ions back on to the metal. The problem has been to find a way to replate on top of the passivation layer.

Moli Energy of Vancouver thinks it has found the answer. The Canadian firm has pioneered an organic electrolyte which makes a thick passivation layer, on which lithium ions can still be replated.

The rechargeable battery, which the company calls a MoliceL, was developed at the University of British Columbia by a team under Dr Rudolph Haering. It is not an ordinary chemical cell. As a MoliceL discharges, positively-charged lithium ions leave the metallic anode and travel through the electrolyte to a molybdenum disulfide cathode. Instead of reacting there with the molybdenum disulfide to form a new compound, they tuck themselves into pockets between the cathode's molecular layers.

Molybdenum disulfide is an ideal host, because it offers the lithium atoms a low-energy environment. The lithium atoms are, in turn, polite guests, because they leave the structure of the cathode undistorted. In this way, the cell produces electrical energy simply by enabling lithium atoms to move from one place to another, where their energy is lower, and extracting the difference.

Moli Energy claims that in most respects the MoliceL performs better than rechargeable batteries made of nickel cadmium (NICAD) and lead-acid cells. It delivers twice the energy density of NICADS, and retains its charge nearly 20 times longer. Because the voltage of the cell depends on the number of anode atoms tucked into the cathode, the user can measure the amount of charge remaining at any time. Moli Energy plans to begin commercial production of "AA"-size batteries by the middle of 1987. The battery industry's long flirtation with lithium looks like turning into a meaningful relationship.

Forgotten crops

Bring back ye-eb



Go on; grow something different

Man is not an adventurous eater of plants. Most of his food comes from 20 species, although he has tried out over 3,000 edible plant species over the centuries. Most of the forgotten crops have disappeared off the world's dinner tables for reasons that have nothing to do with their nutrition or taste.

Take the unfortunate link between the grain amaranth (*amaranthus cruentus*, *a. caudatus* and *a. hypochondriacus*) and human sacrifice. The crop was considered essential by the Aztecs and the Incas 500 years ago. It fell from favour when the conquistadors noticed that the popping of amaranth seeds played a central role in Aztec pagan ceremonies involving sacrificial killings. The Spanish prohibited the cultivation of amaranth and the crop became a historical curiosity.

Mr Noel Vietmeyer of America's National Research Council takes an interest

in the history of obscure crops, and would like to see some of them revived. In the journal *Science*, he reported recently that a few amaranth seeds tested a decade ago contained high levels of total protein and of lysine, the nutritionally essential amino acid. All the world's main cereal crops are deficient in lysine. Mr Vietmeyer says that amaranth is beginning its comeback but most cereal researchers have still never heard of it.

Many others are worthy candidates for resuscitation. The pibay palm (*guilielma gasipaes*) has a chestnut-type fruit, which contains carbohydrates, protein, oil, minerals and vitamins in nearly perfect proportions for the human diet. *Jesenia polycarpa* had an oil like olive oil. Among the more than 20 roots, legumes, grains and fruits that the Incas once ate are oca (*oxalis tuberosa*), a root crop similar to yam; arracacha (*arracxanthorrhiza*), a relation of carrots; celery; nunas (*phaseolus vulgaris*), a common bean that will pop like popcorn; and quinoa (*chenopodium quinoa*), a grain with seeds containing 12-19% protein and a high level of lysine.

How would the rediscovery of forgotten crops help people, besides adding variety to their diet? Mr Vietmeyer thinks it could help avoid famines caused by drought, like those suffered by several African countries in 1985. He wants to discover which crops do best in arid areas.

Cacti (*opuntia*) receive scant scientific attention, and yet produce fruits, green vegetables and forage. The tepary bean (*phaseolus acutifolius*) is grown for food by Indians in the south-west United States and in north-west Mexico. It thrives in hot, arid regions with poor soil. The marama bean (*tylosema esculentum* or *bauhinia esculenta*) is grown in the Kalahari desert in southern Africa; it has tasty seeds high in protein and, along with a sweet-tasting tuberous root.

Little-known shrubs might also be worth getting excited about. Ye-eb (*cordauxia edulis*) will survive with 150-200 millimetres of rainfall a year and produces nuts, similar to macadamia and pistachio. During last year's African drought, it was one of few foods available to the nomads of northern Somalia. Ye-eb, though, is threatened with extinction. Mr Vietmeyer wants it protected.

Atoms

Trapped

The trouble with atoms is that they move—often at several miles a second. This makes them hard to isolate and study. After four years of experiments—and a decade of theorising—scientists



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SCIENCE AND TECHNOLOGY

have found a way to slow them down, by using an exotic experimental technique known as atomic trapping.

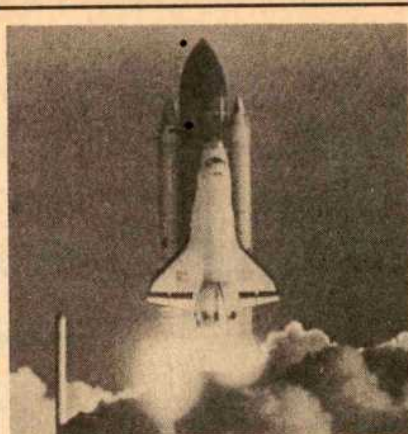
A group under Dr David Pritchard at the Massachusetts Institute of Technology has perfected a system that suspends an atom between two coinciding laser beams of different frequencies. It exploits the fact that photons hitting an object as light as an atom give it a push. The strength of the push depends on the relationship between the frequency of the light and the natural vibration—the resonance—of the atom. For an analogy, imagine a child on a swing receiving regular pushes from behind. The better the pushes are synchronised with the swing, the more effective they are.

The resonance of an atom can be altered by a magnetic field. So the MIT team surrounds its atoms with one. As the atom wanders off in one direction, the field changes the atom's resonance in such a way as to make it more susceptible to the frequency of the laser beam coming from that direction, so pushing it back to its starting place. Careful balancing of the beams and the magnetic field keeps the atom in place.

Trapping the atoms this way is possible only if the atoms are not moving too fast to begin with. For more energetic atoms, a team headed by Dr Steven Chu at AT&T's Bell Laboratories recently demonstrated a system—nicknamed optical molasses—that uses six criss-crossing lasers as the walls of a well. In this case, the atoms bounce backwards and forwards like squash balls. Delicate adjustment of frequencies and resonances can mean that each bounce slows the atoms.

Atomic trapping should make the bizarre world of quantum effects a little easier to study. The cornerstone of quantum physics is that atomic processes (like decay, or changes in an atom's energy states) happen spontaneously, unpredictably and, it seems, instantaneously. So far, though, nobody has been able to observe these processes directly: what is known about quantum physics derives from the statistical analysis of the behaviour of large numbers of atoms. The ability to isolate and immobilise a small number of atoms will change all that.

The new techniques have already confirmed a theoretical prediction made by Einstein in the 1920s. Vaporised sodium atoms were cooled (ie, slowed—temperature equals movement in the atomic world) to the lowest temperature ever recorded: a thousandth of a degree above absolute zero, below the normal solidification temperature of any substance. Even then, the super-cooled super-dense sodium remained a peculiar kind of gas—called a zero-momentum condensation—just as Einstein said it would.



Still more delays in space

More bad news from the final frontier. America's three remaining shuttles will not, after all, be flying again by July 1987. Mr James Fletcher, the head of the National Aeronautics and Space Administration (NASA), met President Reagan this week to tell him that flights will not resume until 1988. NASA has given up hopes of fixing the defective rocket joints that caused the *Challenger* crash in January. It is opting instead for the lengthier task of designing a new rocket joint from scratch.

NASA's decision has deepened the gloom surrounding the West's space programme. The shuttle's rival, Europe's Ariane rocket, is also firmly grounded. A board of inquiry set up to investigate the failure of an Ariane rocket launching a communications satellite in May has recommended extensive studies and tests of Ariane's temperamental third stage. Arianespace does not expect another launch until 1987. The only ray of light in space is shining—brightly—from the East. Two Russian cosmonauts returned to earth this week after four trouble-free months in orbit.

Geothermal energy

Hot but dry

Geothermal energy—hot water from deep within the earth—helps New Zealanders and Icelanders keep warm. People in Cornwall are less lucky. Their hot rocks, heated by their natural uranium content, are dry. Answer: pump down cold water and get it back as steam. This project has recently received another £7m from the British government. Cornwall looks likely to be the first part of the world to have power from such a source.

For several years, three boreholes, drilled more than 6,000 feet beneath a disused quarry at Rosemanowas, near the

Camborne School of Mines in west Cornwall, have experimentally tapped the heat in Cornwall's granite. The team involved in the project is directed by Dr Tony Batchelor. It has pumped water down two boreholes, through a network of artificial fissures (created by explosions and water under pressure) that acts as a gigantic radiator, and up through a third borehole to surface at close to 70°C.

The results look promising. But, to demonstrate the potential of geothermal energy, its champions need to show that such heat reservoirs are not quickly cooled by the water. They must also locate the best lumps of hot granite. Seismic surveys are being done across Cornwall: the noise from small explosions echoes off the granite masses and is picked up by microphones at the surface.

The results are combined with other data obtained earlier from measuring minute variations in the earth's magnetic field, which also give clues to the shapes of underground granite masses. One theory is that the best reservoirs of heat will be in the granite that lies beneath slate, which is an excellent heat insulator.

The Cornish project is one of two big hot-dry rock projects in the world. The other is at Los Alamos in New Mexico, where engineers have drilled deeper than at Rosemanowas, but are encountering serious snags with the instruments required to monitor temperatures at depths of several miles. The Cornish engineers, who work closely with the Los Alamos researchers, are devising new instruments.

The Los Alamos team plans to drill boreholes into chambers of "magma" (molten rock) to see if such chambers can flash water into superheated steam for use in surface power stations. Magma tapping experiments are planned at sites in America. Before work starts, researchers will test their technology on the surface at active volcanoes in Hawaii and Alaska, where it is necessary to drill holes only a short distance into the sides of the volcanoes to tap the magma within.

Drilling holes costs as much as drilling oil wells, but the energy keeps on coming out for longer than would oil. A British company, Energy Conservation, has devised a system that uses a heat pipe to extract heat from a single borehole. Instead of water, it employs an organic fluid pumped down the outer tube of a 7-inch diameter heat pipe. The fluid is heated and vaporised at the bottom over a large surface area of porous copper. The vapour then rises at supersonic speed up an inner tube to drive a specially-designed turbine at the top. Two variations of the system are being designed: one for magma tapping, the other for use in disused oil or gas wells.



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Further Information

Please contact: Robert Dalton, Associate Dean/Director of Executive Education, Graduate School of Industrial Administration, Carnegie Mellon University, Pittsburgh, PA 15213. Telephone (412) 268-2304. Telex 469002.

ARTS AND BOOKS



The true colours of the early Renaissance

1 ▲

After being hidden by scaffolding for three years and veiled by grime for centuries, the nursery of Italian Renaissance painting, Florence's Brancacci chapel, is to be reopened by the end of the year. The photographs on this page are the first chance to see its colours in something like their pristine glory.

The chapel takes its name from a merchant, Felice Brancacci, who in 1423 hired Masaccio and Masolino to paint a series of frescoes showing the life of St Peter. The artists were an unlikely pair. Masolino, 18 years the older, was a run-of-the-mill painter working in the pretty, decorative tradition beloved of the royal or ducal courts. Masaccio (which means clumsy Thomas) lived for a mere 27 years, but in that short lifetime he brought about a revolution in painting by giving his characters something of the gravity and directness of the artisans in whose part of Florence the Brancacci chapel stands. The chapel contains the most extensive examples of Masaccio's work and is among the finest work of the early Renaissance.

Every painter to follow has found his way to that chapel by foot, aircraft or muleback. From Leonardo da Vinci, who

called Masaccio's work "*opra perfetta*", to Henry Moore, who used to study and stare in the chapel every day he was in Florence, it has been a shrine for western art. The adolescent Michelangelo, sketching the frescoes (he was subsequently to borrow from Masaccio when he painted the Sistine chapel), got into a fight with another boy and was left with that characteristic crooked nose.

The veils of grime began accumulating as soon as the chapel was finished. In the sixteenth century, the monks began to set aside a half-barrel of oil each year to keep the precious chapel illuminated. In 1771, near-disaster struck: the church in which the chapel stands burned to the ground. But by miracle or fluke, the chapel itself was mostly spared, though its frescoes were left, as a contemporary remarked, "smoked like prosciutto ham".

Like the current restoration of the Sistine chapel, that of the Brancacci is largely a matter of removing centuries of dirt and, sometimes, the botched work of earlier restorers. It is a notoriously tricky task. Olivetti, the office-equipment company which is footing the bill for the restoration, asked chemists at the industrial giant, Montedison, to devise a kind

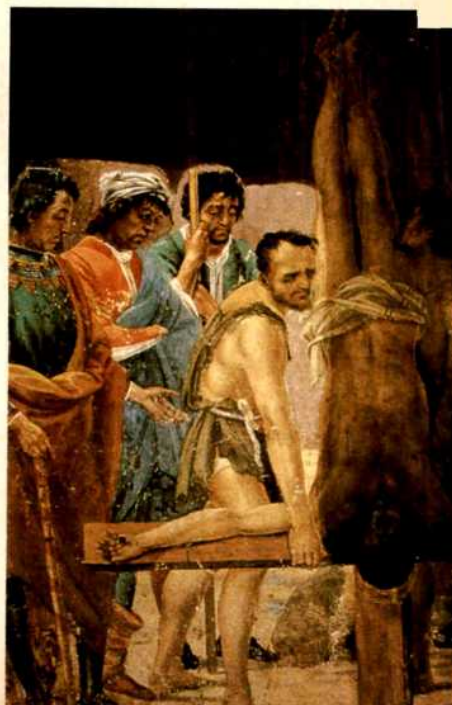
2 ▲

1 *The Baptism of the Neophytes* by Masaccio. The cleaned profile of St Peter, surrounded by a crust of grime.

2 *The Chaining of St Peter* by Masaccio. The figures show the contrast between the unrestored and restored portions of the fresco. The robes of both figures were originally white.

3 *The Crucifixion of St Peter* by Filippino Lippi. The figure in profile on the left is said to be that of the artist Sandro Botticelli.

3 ▼



of poultice for cleaning the frescoes. They came up with a thick, foul-smelling, pumpkin-coloured paste, which is applied to strips of porous paper. These are then used to paper over the dirty walls and left for eight to 12 minutes. Stripped away like a band-aid, they reveal the original colours. Photograph 1 shows the head of St Peter emerging from a halo of muck. Photograph 2 shows the difference between the restored and unrestored sections. The white robes of the monk on the right look as if they have been dipped in chocolate.

By stripping away the smut from the oil lamps and from the fire, the present restorers, led by Miss Ornella Casazza, are beginning not only to reveal Masaccio's true colours but even to uncover more of his work than most people had thought existed. The upper half of "The Baptism of the Neophytes" is today little more than a black space (the head of St Peter in photograph 1 is from a different part of the same fresco). The restorers say that the blackened area is "full of figures which we can bring to light".

The boss of the National Institute of

Restoration, Mr Umberto Baldini (who is Miss Casazza's husband), reckons that the restoration will also clear up arguments about which parts of the original frescoes are by Masaccio, which by Masolino and which were added, 70 years later, by Filippino Lippi (photograph 3 shows part of his work). This is not just because art historians will be able to see the frescoes more clearly. The differing techniques of the artists will be thrown into sharper focus by the restoration. Art historians are already learning lessons: the backgrounds of Masaccio's frescoes, now visible again, contain buildings that resemble those of the pioneering architect, Leon Battista Alberti—before Alberti's first-known building.

Olivetti's chairman, Mr Carlo de Benedetti, said two years ago that he would pay whatever the restoration cost. He has already handed over a cheque for 500m lire (\$300,000), and the final sum will perhaps amount to that much again. Miss Casazza's team is likely to have finished its task towards the end of the year. By then, Olivetti will be able to give the world a wonderful Christmas present.

been added, though some items have been taken away (but to point out that, for instance, several Rembrandts have been sold, is to break a taboo).

Many of the paintings were last shown publicly in Munich in 1930; other parts of the collection have never been shown except to the baroness's friends or to those visiting select Dutch embassies, where a few paintings hung until Baron Bentinck's death in 1970. Most of the collection has hitherto lain undisturbed in the vaults of the Villa Favorita. Now, the lot (except for a few paintings to keep the walls of the baroness's four houses from looking bare) has gone on show in Lausanne in the other Hermitage, a handsome manor house recently refurbished as a private museum.

The show provides a series of small, but pleasant, shocks. There is something eerie in seeing sixteenth-century Flemish paintings like "The Man with a Glove" by Joos van Cleve or the "Madonna and Child" by Adriaen Isenbrandt (see picture). Both look vaguely familiar—and turn out to be variants of better known (because always displayed) paintings in national collections. Unexpected, too, is an odd "Cupid Resting" by Rembrandt—so odd that experts long wrangled about whether it is by the master (the Amsterdam Rijksmuseum's Rembrandtologists now say it is).

What happens to this Thyssen collection after its airing in Lausanne, however, is unclear. It has no real home. And if a group of French museums which are angling for a chance to put it on their walls fail to gain permission to do so, it may just go back into the vaults of the Villa Favorita for another 50 years.

Private art collections

The other Thyssen collection

LAUSANNE

The Thyssen collection is one of the finest art collections in private hands but only part of it has been on public display. Until now

Like Frick or Carnegie, the Thyssen family made a fortune from steel and spent much of it on works of art. When Baron Heinrich von Thyssen-Bornemisza died in 1947, his collection was divided between his four children. The elder son, Stefan, took his share to Cuba where it was confiscated by Fidel Castro; many of the pieces found their way back to the auction house Sotheby's, where they were bought by the second son, Hans-Heinrich who had inherited most of the Italian and Spanish paintings. His collection lies admirably displayed at the family house in the Villa Favorita in Lugano, acquired by Baron Heinrich in 1932 (and to which he had the foresight to transfer his collection in 1936 from Schloss Rohoncz on the Austro-Hungarian border).

Some of the inheritance of the second child, the Countess Batthyany, is also lodged in the Villa Favorita. Her father's will stipulated that certain paintings could not be isolated from the main collection whoever owned them. Some of these paintings have been bought by Baron Hans-Heinrich, who is the only active art collector in the family. He has amassed a collection of modern art to go with his father's Old Masters. The baron has

around 1,600 paintings, and rooms full of sculpture, porcelain and carpets. His is what is now known as the Thyssen collection.

It is not necessary to go to the Villa Favorita to see it. Only part of his collection can be stored, let alone displayed, at the villa, so over the past five years the baron has organised a series of travelling exhibitions. At any one time, two or three exhibitions culled from his riches may be roaming the world, plus individual paintings on loan to individual museums. The baron has made something of a speciality of exchanges with Russian museums. This summer, visitors to Lugano can see gold and silver from the Hermitage in Leningrad and, from the other end of Europe, Goyas that the baron managed to prise out of private collections in Spain.

But the other Thyssen collection is at least as interesting. In 1947, Gabrielle Thyssen, the younger daughter and wife of a Dutch diplomat Baron Adolphe Bentinck, inherited her share: most of the Dutch, Flemish and German paintings from the old baron's collection, plus some fine Chinese porcelain. Unlike her brother, she has tried to keep the collection as it was at her father's death. Nothing has



Isenbrandt up from the vaults

BOOKS

The clearing house of the world

HEARTBEAT LONDON. By Michael Elliott. Firethorn Press. £5.95.

Mr Michael Elliott has understood and reported the changes that have transformed London over the past 20 years in a way completely different from those mainly boring academic tracts which have chronicled London's decline statistically without ever capturing the spirit of the city and its people. London's structural problems have so obsessed those who have studied the capital that they have largely ignored the dynamism and confidence that characterise so much of its younger cosmopolitan population.

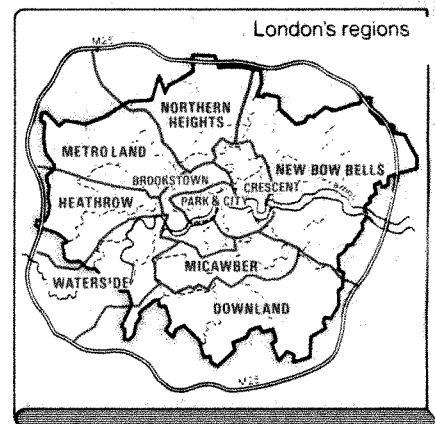
While rightly analysing the decline of London's docklands and manufacturing industry, Mr Elliott (who was *The Economist's* political correspondent at the time he wrote "Heartbeat London" and has now been posted to its Washington office) has not ignored the confident entrepreneurial youth economy which has done so much to establish Britain's predominance in popular culture. The transformation of young London from the "trendy" 1960s to the "street-cred" 1980s has had its impact on fashion, design, advertising,

tourism, entertainment and, perhaps most important of all in the long term, Channel 4 television. Governments and councils that fail to understand the importance of allowing this youth economy the space to grow or which feel they can regulate it into conformity will run the risk of costing London and Britain what is likely to become one of its main competitive advantages over the rest of the world.

There are several quibbles. Mr Elliott perhaps overestimates the number of jobs that will come from the redevelopment of docklands and underestimates the jobs and environmental damage that will come from the M25, the roundabout with London in the middle of it. The nature and boundaries of the ten regions into which he suggests London should be divided (see map) are also questionable, though they are no less rational than some of the existing gerrymandered boroughs that have never developed any identity or community of interest.

But it is when he turns to the problems of governing London that Mr Elliott

produces arguments which I find much more to agree with than I would have thought possible for a writer on *The Economist*. His complaints about the education provisions of the too-small outer boroughs and the too-large Inner London Education Authority bring home the difficult problems facing the Labour party if it is to build up public confidence in state schools. And in his analysis of the Metropolitan police, he puts his finger on what is potentially the most explosive problem facing those who now govern London. His is the strongest attack on the failings of the Met to come from somebody who is not a socialist. With luck, it will have all the more impact for that. Unless the Met is made accountable to local politicians, as he suggests, there is no chance of improving both its produc-



Source: From Heartbeat London

tivity and its standing with the public.

There is much else in this book that local and national politicians need to take into account when they think about the reorganisation of local government that has been made inevitable by the abolition of the Greater London Council (GLC). It is a pity that "Heartbeat London", which correctly predicting that London needs—and will undoubtedly get—fewer, larger boroughs, ducks the issue of whether or not to recreate a GLC-like body. But it is a greater pity that the book was not available in May 1981, when the Labour party was elected to take charge of the GLC. Had the reporters who descended on County Hall to write about the "Red Terror Coup in London" been able to read this book, they would have understood better what the Labour GLC was about. Mr Elliott sets the council in the context of London. His book shows that something like the Labour council was almost inevitable given the changes that had taken place. To have understood that—while almost the whole of Fleet Street remained (and remains) in ignorance of the city in which it is situated—is no small achievement.

Ken Livingstone

Arts and Books continues overleaf
THE ECONOMIST JULY 19 1986

I just wanna change the world

Pop music was spawned by young rebels but is no longer their exclusive preserve. The relationship between pop and politics is fascinating and a subject of lively debate in Britain: a liking for street culture is one of the things that distinguishes Mr Ken Livingstone's "cuddly left" from the menace of Militant. Almost any treatment of it should be worth reading.

In **Rebel Rock** (Basil Blackwell; £19.50), John Street shows he knows lots and lots and lots. From Woodstock to Live Aid, from black consciousness to gay rights, he reveals the tensions between conviction and commercialism, politics and pretty songs. The right conclusion to draw would be that the relationship is in glorious confusion. Some musicians just want to get rich. Others want to change the world; some, like Bob Geldof, do change it, or a little bit

of it. Most do not; nobody knows why.

Instead, Mr Street tries to stuff his expansive knowledge into a narrow framework. He sets out at the beginning of his book, for example, a firm distinction between "rock" and "pop" music and returns to it with wearisome repetitiveness. Some generalisations make good sense—"rock's emotional sensitivity works against political sophistication... pleasure is rock's only consistent subject"—but Mr Street wastes much time treating rock stars as a breed apart. In some ways, they are: Mr Street shows how intense are the pressures pop stars face—pressures that have driven Boy George, for instance, to heroin addiction. But what forms rock stars' political opinions? Mr Street rightly, if perhaps lamely, concludes by admitting that their views on politics do not distinguish them from their fellow citizens.

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Japan

Is the Japanese miracle ending?

THE SUN AT NOON. By Dick Wilson.
Hamish Hamilton. 265 pages. £12.95.

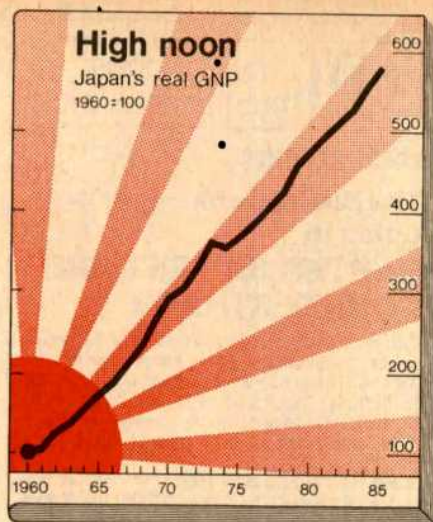
The magazine *Japan Echo* recently considered how best Japan should prepare itself to take over the leadership of the world. Being economically powerful is not everything, it conceded. If Japan's "new world order" is to prove a stable replacement for the Pax Americana, such tricky matters as military, cultural and political strategies have to be thought out.

If this sort of talk disturbs you—and it is not uncommon both within and outside Japan—take comfort from Mr Dick Wilson's book. Forget about Japan overtaking Russia and America and becoming the world's richest country, with the average Japanese twice as rich as anybody else by the end of the century. Despite the remorseless increase in real GNP (see chart), the rising sun has reached its zenith, he says, thoughtfully explaining the title of his book. Neither does Mr Wilson think that the Japanese have much taste for geo-political meddling. They have declined even to help their neighbours—China, Taiwan, and the two Koreas—to settle their disputes.

Mr Wilson sees Japan as rather an inward-looking country which has tried to stay free of international entanglements. Its expansionist successes in the 1930s and 1940s, when it temporarily grabbed a large part of East Asia, were due to special circumstances, and should not be taken as a guide to the future. He does not agree with the succession of western prophets—like Oswald Spengler, Arnold Toynbee and Herman Kahn—who have awarded the next century to Japan.

Futurology apart, Mr Wilson has written a convincing account of modern Japan. Rather than try to elevate the Japanese into a super-people, he shows them as an ordinary lot who have spent the best part of a lifetime overcoming the disaster of defeat, who are mildly surprised at what they have accomplished and are not sure what to do next. Instead of idolatry or envy, they need the sympathy and understanding of a world that is still largely managed by white Christians rooted in European culture.

Even if Japan does not end up running the world, Mr Wilson concedes that it will remain a rich and important country. It will do something useful with all that money. Good works, perhaps. As Japan emerges from its "American period", as what Mr Wilson calls the MacArthurite



clothes fall away, it might set out to teach the rest of the world the Japanese art of "reconciling modernity with nature". Japan as philanthropist, a Getty of the twenty-first century? Perhaps. But the world will miss its Japanese threat.

British cars

Rover chained

INNOVATION AND THE AUTO INDUSTRY.
By Richard Whipp and Peter Clark.
Frances Pinter. 224 pages. £18.50.

The only British-owned producer of cars in volume has just changed its name again, to The Rover Group, and has launched a new model, the product of a collaborative deal with Honda. It is the latest in a long line of make-or-break efforts by what used to be called British Leyland (BL). This book looks at one of the first such efforts. It is a case study in the often detrimental effect of mergers upon innovation.

The Leyland Motor Corporation and

British Motor Holdings (BMH) had already absorbed most of Britain's car and truck industry by the time they fell into each others' arms in 1968 to form British Leyland. Both groups included a specialist car producer: BMH had Jaguar Cars; Leyland the Rover company. Jaguar and Rover had strong engineering traditions and loyal customers but their fates were to be different. Jaguar was permitted to go its own way and, in 1984, was floated off independently. Rover was prevented from making the executive car that it thought could compete with Jaguar and was chosen instead to make a new medium-sized saloon.

The car, the SD1, was an ill-starred undertaking. Rover's managers were constantly second-guessed by BL's top brass. A new factory was built but both the car and the methods used to produce it seemed old-fashioned when the vehicle was launched in 1976. It never achieved the hoped-for sales. In drawing lessons, Messrs Whipp and Clark stress the importance of all sorts of innovation—not just in design and production, but in planning, labour relations and working practices. They are suspicious of talk about "economies of scale" and "the globalisation of the car industry": these are supposed to mean that a few big companies will make a small range of cars that will sell in all markets. In fact, most executive-carmakers—Jaguar, BMW, Porsche, Saab—are independent and show few signs of the urge to merge (Mercedes bought another company this year, but it was AEG, the electrical group).

Had Rover remained independent, its fate might have been happier. In 1967, it was profitable, had a successful range of models and had plans for products that, with hindsight, would probably have sold well. Struggling BL's decision to call it The Rover Group is an ironic end to Rover's independent history.



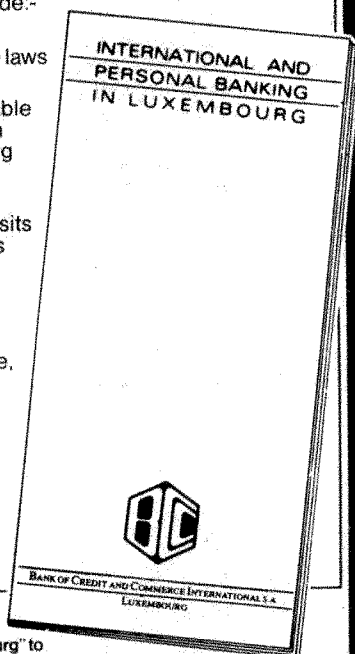
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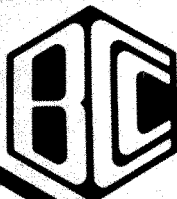
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LIFE ASSURANCE BRIEF

Fewer feet in the door

The "big bang" that blows up fixed commission rates and other restrictive practices in the City on October 27th will also change the way the British life assurance industry sells its life policies.

After years of unease about aggressive selling methods—including cold-calling, cold-phoning and even accosting people in the street—the government's white paper on investor protection, published in January 1985, set new ground rules. The task of moulding the rules into a workable framework fell to the Securities and Investments Board and, more specifically, the Marketing of Investments Board Organising Committee. MIBOC's latest paper, "Life Assurance and Unit Trusts and the Investor", published in April, tackles three problems:

● **Status of salesmen.** The committee proposes to do away with the "tied agent". At the moment, salesmen who describe themselves as "independent financial advisers" often have a primary loyalty to a particular life company but are permitted by that company to place business with other companies. When the financial services bill becomes law, MIBOC proposes to tidy this up by creating two separate classes of salesmen: independent intermediaries

and company representatives. A salesman will be legally bound to clarify his status when meeting a client. Under the bill, misrepresentation or an attempt by a company representative to place business with a company other than the one he works for will both be criminal offences.

The distinction being drawn between company salesmen and independent advisers still leaves room for abuse. How, for example, does MIBOC cope when an "independent" adviser is not tied to any company but sells a poorer policy to a client because United Optimistic rewards him with a better holiday than Municipal Hopeful? MIBOC says it will prescribe such incentives.

● **Salesmen's commissions.** Under MIBOC's proposals, these will either have to fall within the limits of an industry-wide "commissions agreement" (details of which will be available to the policy-buyer), or will have to be disclosed in full and compared with the commissions agreement's going rates.

● **Disclosure on policies.** MIBOC proposes that under a 14-day mandatory "cooling-off" period, the customer will be informed exactly which kind of product he has bought, his financial commit-

ment, the tax implications and the surrender value of the policy, if any.

The industry's critics are pleased about the proposals to ban tied agents but are not satisfied with the way the rest of MIBOC's proposals rely heavily on such imprecise notions as "best advice" and "product suitability". They say the industry's record does not inspire confidence and that stricter, clearer regulations are needed.

Terms of endowment

The improvements brought by better regulation will be limited so long as people taking out life assurance policies in Britain remain loth to ask questions and to shop around. *The Economist's* annual survey of over 40 life offices covers past performance of with-profits and whole-life policies and projected future performance, and provides details of term-assurance policies and surrender values. It again reveals marked differences between the rewards offered by different companies.

Consider the 29-year-old non-smoking man planning a 20-year term policy. If he is lucky he will take out his policy with Friends' Provident, which for an annual premium of £100 will pay his dependants £90,000 if he dies within the term (table 2, and table 3, column 13). Friends' Provident has offered the best deal in this category for the past five years. Equitable Life is in second place for the fifth year, offering to pay £86,607 on death, whether the customer smokes or not.

Under a similar policy with Eagle Star, the 29-year-old's dependants would receive only £42,857, or less than half Friends' Provident's payout. It is hard to look at such disparities without concluding that people in Britain buy assurance policies with less care than they buy a washing machine.

Term assurance is probably the most cost-effective way for the 29-year-old to provide for his dependants should he die before middle-age. More costly is a non-

Table 1: Surrender values*

Best	
Norwich Union	£2,071
Standard Life	£2,066
Scottish Amicable	£2,049
Scottish Widows	£1,921
National Provident	£1,831
Worst	
Wesleyan & General	£1.2
Sun Life of Canada	£1.2
UK Provident	£1.243
Scottish Equitable	£1.191
Sentinel	£1.153

*Col 11 on table 3

profit whole-life policy. At its most basic, this pays out only on the death of the holder, but it will do so regardless of the age at which he dies.

For the fourth year running, General Accident (formerly listed under Yorkshire General) offers the best non-profit whole-life policy, paying £13,370 on death (table 2, and table 3, column 12). Refuge, fourth from bottom in the 20-year term stakes, comes last with £8,052 on offer.

The "performance gap" is no less spectacular in the league of actual results (table 2, first four columns). A whole-life policy

Table 2: Best and worst

Top five and bottom five companies in each category, in descending order of total sums paid on policies described in table 3.

Actual Results†				Projections‡					
with profits				non profit		with profits			
Whole life policy in force 40 years	Endowment policy in force 10 years	Endowment policy in force 25 years	15-year endowment policy at death after 10 years	Whole life	20-year term	10-year endowment with profits		25-year endowment with profits	
(col 3)*	(col 6)	(col 9)	(col 10)	(col 12)	(col 13)	Including terminal bonus	Excluding terminal bonus	Including terminal bonus	Excluding terminal bonus
(col 15)	(col 16)	(col 18)	(col 19)						
Leaders									
Equity & Law (£48,795)	Scottish Amicable } Standard Life (£13,482)	Standard Life (£13,482)	Standard Life (£3,651)	General Accident (£13,370)	Friends' Provident†† (£90,000)	Standard Life (£2,390)	Scottish Life (£1,519)	Scottish Life (£15,828)	Eagle Star (£8,773)
Standard Life (£2,448)	Standard Life } Friends' Provident	Friends' Provident	Equitable Life	Scottish Provident	Equitable Life	Scottish Amicable	Clerical Med & Gen	Friends' Provident	Royal Life
Guardian Royal Exch	Friends' Provident	Clerical Med & Gen	Scottish Widows	Ecclesiastical	Scottish Equitable††	Clerical Med & Gen	Friends' Provident	Standard Life	Commercial Union
Scottish Mutual†††	Equitable Life	Norwich Union	Clerical Med & Gen	Equitable Life	Commercial Union††	Friends' Provident	London Life	Pearl	Scottish Life
Scottish Widows	Scottish Widows	Scottish Widows		Colonial Mutual	Sun Alliance††	Equitable Life	Colonial Mutual	Scottish Amicable	London Life
Laggards									
Refuge	Wesleyan & General	Refuge	Sun Life of Canada	Provident Life	Marine & General	Prudential††	Sentinel	Prudential††	Cornhill
Sun Life of Canada	Scottish Equitable	Marine & General	Scottish Equitable	National Mutual	Refuge	Sentinel	Prudential††	Sentinel	Marine & General
Marine & General	Sentinel	National Mutual	Cornhill	Royal Life	Pearl	Marine & General	FS Assurance	Marine & General	Equity & Law
Life Association of Scotland	Cornhill	Life Association of Scotland	Sentinel	London & Manchester	Royal London	Provident Life‡	Marine & General	Provident Life‡	Sentinel
London & Manchester (£16,233)	Provident Life (£1,380)	London & Manchester (£7,723)	Provident Life (£2,058)	Refuge (£8,052)	Eagle Star (£42,857)	Cornhill (£1,208)	Cornhill (£1,171)	Cornhill (£6,802)	Refuge (£5,653)

*Column number refers to table 3. †Policies maturing or effecting on May 1, 1986. ††non-smoker rates. ‡excluding terminal bonus.

Table 3: Life assurance comparisons

	Amounts payable on May 1, 1986*											New policies started on May 1, 1986†							
	with profits											non-profit		with profits					
	Whole-life policy in force 40 years			Endowment policy in force 10 years			Endowment policy in force 25 years			15-year endowment policy after 10 years		Whole-life policy		20-year term assurance (non-linked)		10-year endowment policy		25-year endowment policy	
	Sum assured	Bonuses	Total	Sum assured	Bonuses	Total	Sum assured	Bonuses	Total	Claim on death	Surrender value	Sum assured	Sum assured	Sum assured	Payable on maturity	Payable on maturity excluding terminal bonus	Sum assured	Payable on maturity	Payable on maturity excluding terminal bonus
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Clerical Medical & General	4,102	25,989	30,091	901	1,375	2,276	2,385	10,322	12,707	3,355	1,399	10,217	(75,904)	902	2,249	1,482	2,277	12,919	7,894
Colonial Mutual	4,324	26,154	30,478	930	895	1,825	2,405	8,286	10,691	2,776	1,328	12,200	64,850	959	1,966	1,467	2,270	12,430	6,719
Commercial Union	3,809	22,318	26,127	907	1,000	1,907	2,272	8,499	10,771	2,867	1,559	11,308	(84,505)	841	1,705	1,421	2,050	10,238	8,532
Co-operative	4,396	22,451	26,847	930	1,018	1,948	2,366	7,779	10,145	2,604	1,610	—	—	888	—	—	2,343	—	—
Cornhill	—	—	—	979	487	1,466	—	—	—	2,237	1,661	9,978	52,741	796	1,208	1,171	2,292	6,802	6,392
Crusader	—	—	—	905	914	1,819	2,222	6,627	8,849	2,718	1,451	10,395	(79,310)	858	1,699	1,452	2,123	11,267	7,906
Eagle Star	4,363	20,860	25,223	922	960	1,882	2,407	6,887	9,294	2,807	1,456	10,000	42,857	823	1,758	1,390	2,108	13,105	8,773
Ecclesiastical	4,597	26,920	31,517	998	1,277	2,275	2,563	8,982	11,545	3,368	1,467	12,774	52,800	903	2,018	1,392	2,322	9,906	6,831
Equitable Life	3,774	27,797	31,571	931	1,375	2,306	2,410	8,688	11,098	3,501	1,491	12,630	86,607	897	2,181	1,449	2,472	11,987	7,527
Equity & Law	4,494	44,301	48,795	874	1,216	2,090	2,385	8,636	11,021	3,128	1,685	9,292	58,615	861	2,112	1,337	2,059	11,445	6,187
Friends' Provident	4,047	31,805	35,852	920	1,424	2,344	2,365	10,638	13,003	3,141	1,463	—	(90,000)	906	2,244	1,475	2,267	14,980	7,677
FS Assurance	—	—	—	925	784	1,709	—	—	—	2,576	1,348	9,731	54,214	833	1,612	1,291	2,085	10,269	6,899
al Accident	4,348	22,334	26,682	917	897	1,814	2,410	7,249	9,659	2,764	1,433	(13,370)	(70,562)	(831)	(1,740)	(1,366)	(2,054)	(10,985)	(7,307)
lian Royal Exchange & General	4,095	40,765	44,860	876	1,231	2,107	2,364	9,168	11,532	3,175	1,423	9,587	(79,797)	788	1,562	1,433	2,149	8,770	7,667
& General	—	—	—	888	916	1,804	2,392	8,137	10,529	2,675	1,319	10,972	69,827	879	1,816	1,372	2,158	11,563	7,106
Life Association of Scotland	4,068	13,133	17,201	919	896	1,815	2,330	6,038	8,368	2,696	1,390	11,703	52,588	885	1,782	1,398	2,233	13,284	7,373
London Life	4,274	23,143	27,417	943	1,042	1,985	2,449	8,017	10,466	2,993	1,504	11,059	80,342	883	1,915	1,473	2,249	12,932	8,082
London & Manchester	4,262	17,971	16,233	932	1,027	1,959	2,301	5,422	7,723	2,695	1,348	8,059	(55,510)	874	1,768	1,421	2,315	8,847	6,552
Marine & General	4,308	16,855	21,163	904	974	1,878	2,369	6,095	8,464	2,863	1,461	9,609	50,605	802	1,423	1,283	2,480	7,564	6,200
Manufacturers Life	—	—	—	—	—	—	—	—	—	—	—	10,273	(74,000)	966	1,624	1,413	2,542	9,494	7,303
National Mutual	4,240	21,593	25,833	939	1,062	2,001	2,247	6,145	8,392	2,980	1,469	9,144	58,384	855	1,902	1,406	2,186	12,436	7,581
National Mutual of Australasia	3,876	21,048	24,924	1,009	942	1,951	2,721	7,829	10,350	2,993	1,433	9,885	51,807	893	1,732	1,332	2,450	11,950	6,834
Northern Provident	4,096	18,347	22,443	867	1,112	1,979	2,537	6,756	9,293	3,009	1,831	11,238	82,512	867	2,008	1,366	2,229	10,475	6,944
Norwich Union	4,075	28,810	32,885	930	1,273	2,203	2,417	9,990	12,407	3,311	2,071	—	(77,320)	877	1,946	1,429	2,274	11,248	7,701
Pearl	4,494	23,916	28,410	908	965	1,873	2,359	8,900	11,259	2,812	1,491	9,433	48,387	842	1,941	1,358	2,060	14,132	6,811
Provident Life	—	—	—	869	511	1,380	—	—	—	2,058	1,305	9,227	65,896	810	1,397†	1,397	1,880	7,341†	7,341
Provident Mutual	4,109	27,559	31,668	956	984	1,940	2,451	7,659	10,110	2,944	1,390	10,227	65,217	886	1,839	1,343	2,374	12,097	6,815
Prudential	4,420	23,252	27,672	921	1,074	1,995	2,393	7,960	10,353	3,019	1,510	(10,353)	(70,400)	(812)	(1,492)	(1,297)	(2,086)	(8,250)	(6,735)
Refuge	4,478	17,415	21,893	920	1,224	2,144	2,326	6,387	8,713	3,263	1,464	8,052	49,264	899	2,135	1,416	2,319	9,595	5,653
Royal Life	4,027	19,125	23,152	901	946	1,847	2,357	7,305	9,662	2,764	1,384	9,024	60,204	824	1,694	1,366	1,969	11,034	8,638
Royal London Mutual	4,285	21,082	25,367	906	960	1,866	2,312	8,208	10,520	2,824	1,404	9,896	47,651	860	—	—	2,308	—	—
Scottish Amicable	4,152	28,768	32,920	961	1,487	2,448	2,273	7,993	12,066	3,166	2,049	11,250	65,500	886	2,280	1,399	2,198	14,114	7,257
Scottish Equitable	4,255	18,902	23,157	827	832	1,659	2,312	6,453	8,765	2,480	1,191	9,565	(84,615)	858	1,758	1,358	2,037	9,930	6,422
Scottish Life	4,278	25,404	29,682	899	1,179	2,078	2,335	9,316	11,651	3,134	1,714	10,101	63,714	915	2,126	1,519	2,286	15,828	8,117
Scottish Mutual	(4,494)	(32,306)	(36,800)	(898)	(1,201)	(2,099)	(2,415)	(9,038)	(11,453)	(3,153)	(1,371)	(11,002)	(75,911)	(865)	(2,044)	(1,372)	(2,120)	(12,196)	(7,174)
Scottish Provident	4,948	22,495	27,443	924	931	1,855	2,346	8,765	11,111	2,753	1,675	(12,934)	(65,750)	850	1,664	1,411	2,109	11,083	7,489
Scottish Widows' Fund	4,096	32,430	36,526	893	1,404	2,297	2,332	9,880	12,212	3,403	1,921	—	(80,320)	(836)	(2,128)	(1,373)	(2,063)	(12,874)	(7,153)
Sentinel	—	—	—	936	623	1,559	2,395	6,741	9,136	2,197	1,153	11,950	65,517	889	1,489	1,314	2,217	8,187	6,140
Standard Life	4,103	41,229	45,332	916	1,532	2,448	2,297	11,185	13,482	3,651	2,066	10,652	62,671	877	2,390	1,426	2,154	14,792	7,768
alliance	4,012	29,016	33,028	895	1,069	1,964	2,334	8,750	11,084	2,953	1,775	10,570	(83,333)	873	1,992	1,337	2,188	12,579	7,765
Life of Canada	4,132	17,575	21,707	931	802	1,733	2,367	6,619	8,986	2,533	1,272	—	(62,696)	897	1,833	1,410	2,207	12,857	7,347
Life	4,133	19,225	23,358	910	889	1,799	2,347	6,464	8,811	2,681	1,302	11,463	57,317	—	—	—	2,217	10,644	7,040
UK Provident	4,150	22,992	27,142	939	988	1,927	2,295	7,892	10,187	2,780	1,243	—	—	—	—	—	—	—	—
Westleyan & General	4,342	19,188	23,530	927	769	1,696	2,374	6,373	8,747	2,572	1,292	9,555	52,222	895	1,709	1,414	2,311	11,826	7,060

Figures in brackets are for non-smokers. Some sums assured in columns 14 and 17 are below the minimum policy written. †Some premiums cease at ages between 80 and 90. *Based on gross annual premium of £100 payable by a male aged 30 next birthday. ††Excluding terminal bonus. ‡Now acquired by Friends' Provident.

with Equity & Law, in force for 40 years and becoming a claim on May 1 1986, would have produced £48,795. The same policy with London & Manchester would have paid out £16,233, barely one-third as much. For a ten-year with-profits endowment policy maturing on May 1 1986, the differences between top and bottom are smaller: joint winners Scottish Amicable and Standard Life would have paid out £2,448, 1½ times the £1,380 on offer from Provident Life.

The with-profits projections in table 2 (and columns 15, 16, 18 and 19 of table 3) should be treated with more caution than the other comparisons. With-

profits policies pay two types of bonus: reversionary and terminal. Reversionary bonuses are paid each year and compounded. They are rarely reduced and often increased. Terminal bonuses are paid when the policy matures.

The difficulty, for *The Economist's* comparative purposes, is that companies sometimes refuse to quote terminal bonuses in their projections, and consequently appear among the laggards (Provident Life is one example). They will almost certainly pay bonuses, however.

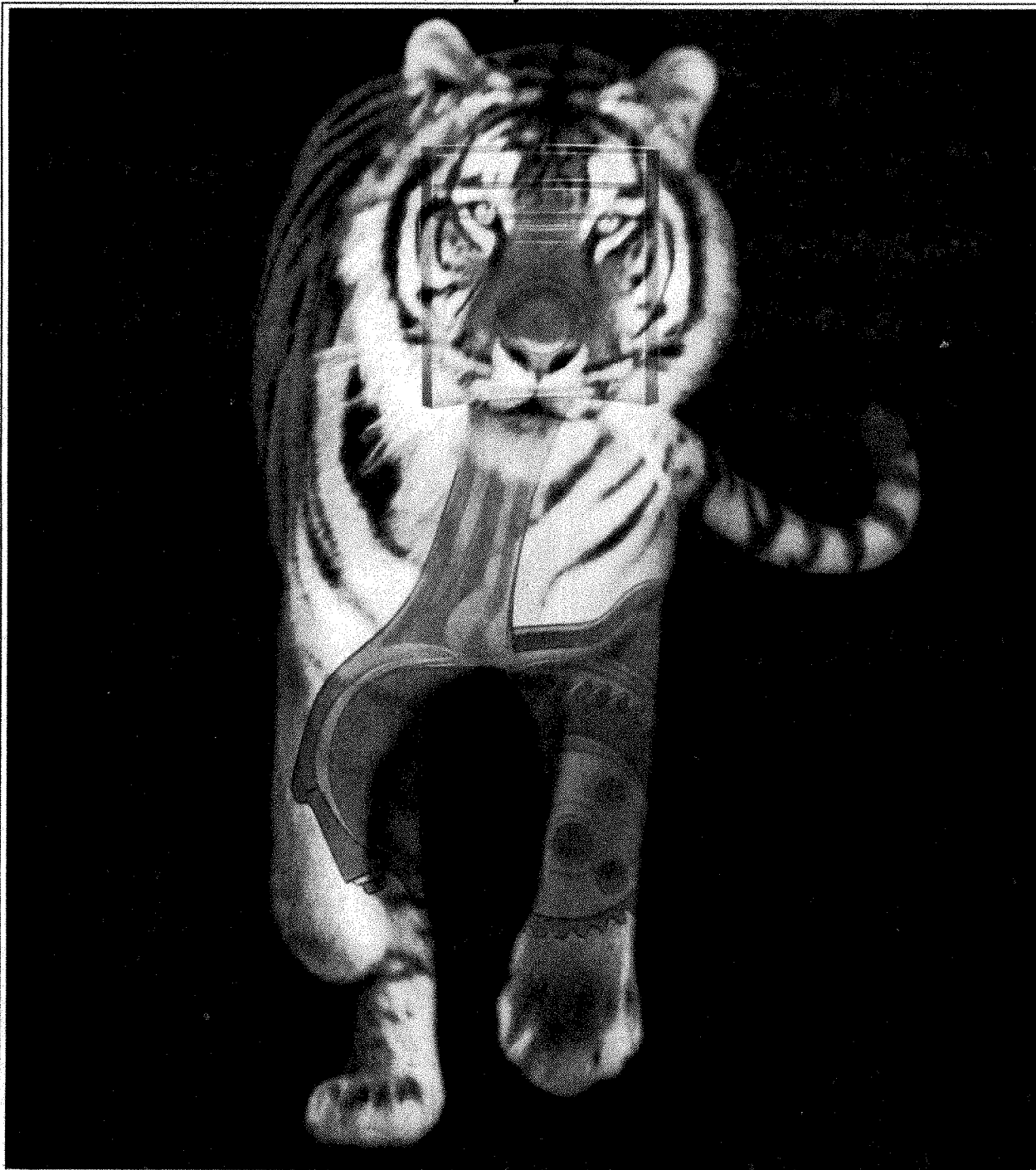
Beware of impressive bonus projections—they may be based on too-optimistic assumptions. The Association of British Insur-

ers has half an answer. From November, its members will base pay-out forecasts on an estimated "investment return" (rather than on current bonus rates) with an initial pre-tax ceiling of 13% a year. But 13% is still pretty bullish, and which life office will dare forecast less?

Until November, it is safer to look at columns 16 and 19, bearing in mind the caveats. There, the gulf between munificent and miserly is less likely to be eroded over the years. Unless, that is, your life company drops dead. United Kingdom Provident Institution cut both its interim reversionary and its terminal bonuses when it was forced (because of

unwise investments) to merge with Friends' Provident in April this year.

Cashing in a life policy early is rarely worthwhile. Because of the commissions and administrative costs being wrung from early premiums—so-called front-end loading—most policies return little during the first five years. Table 1 gives an idea of the cash-in value of a 15-year endowment policy taken out ten years ago and surrendered on May 1 1986. As in the past two years, Norwich Union is standard-bearer here, with a refund of £2,071. Sentinel once again brings up the rear with £1,153 to show for ten years and £1,000 of premiums.



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APPOINTMENTS

New Zealand Institute of Economic Research

SENIOR RESEARCH ECONOMIST/
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TANT RESEARCH ECONOMIST

The Institute wishes to fill two posts and invites applications from well qualified applied economists in any field of economics. However, some preference will be given to specialists in the fields of macroeconomics, energy/resource economics and computing/econometrics. The posts are full-time permanent

appointments, but applications for secondment or part-time positions will be considered.

The Institute offers terms and conditions competitive with government, universities and private companies, with salaries comparable to the Lecturer and Senior Lecturer scales at New Zealand Universities.

Applicants are invited to send a curriculum vitae and the names of two referees to John Gallacher, N.Z. Institute of Economic Research, Private Bag, Wellington, New Zealand.

AGRICULTURAL POLICY

The National Farmers' Union has a vacancy for a person, likely to be in their late twenties, to assist in the analysis and development of agricultural policy, particularly as it arises from the operation of the CAP in the UK. Applications are invited from persons with a good academic record, a sound knowledge of the CAP and some experience of dealing with economical and political issues. An ability to draft clearly and concisely is essential and a working knowledge of French desirable.

Salary will be according to age and experience.

Further particulars from Personnel Director (BRK), Agriculture House, Knightsbridge, London SW1.

Faculty of Business and Management

Applications are invited from men or women for the following Professorships, based at Jordanstown.

PROFESSOR OF APPLIED ECONOMICS

Ref: C86/129

Applicants should have postgraduate qualifications, teaching experience and a proven record of research in areas such as industrial economics, regional economics, economic forecasting and policy stimulation.

The person appointed will be expected to lead the research within the Department of Economics and Manpower Studies, and to attract funds from industry and other sources. This would require a record of research achievement and an established ability to employ applied econometric techniques.

PROFESSOR OF FINANCE

Ref: C86/128

Applicants should have postgraduate qualifications, teaching experience and a proven record of research. Preference will be given to candidates with an interest in European and International Finance.

The person appointed will be expected to lead the research within the Department of Accounting and Finance, and to attract funds from industry and other sources. Other duties will include participation in teaching, course and subject development, and contributing to appropriate planning and administrative activities of the University.

A Graduate School of Business is being developed, centring on established masters degrees and research centres with international links, particularly to Europe.

Salaries will be within the approved Professorial range: current minimum £19,010 per annum; average £22,340 per annum (under review).

Further details and application forms may be obtained from the **Staffing Officer, University of Ulster at Coleraine, Cromore Road, Coleraine, Co. Londonderry BT52 1SA** (telephone Coleraine (0265) 4141, Ext 225) to whom applications should be sent not later than 8 August 1986.



University of Ulster

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Please telephone Personnel Recruitment on 01-626 1500, ext. 3106 for an application form, or write to:

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Please write with sufficient details of your academic background and personal profile to make an application form unnecessary to: Mary North, Personnel Department, Scandinavian Bank Limited, 2-6 Cannon Street, London EC4M 6XX.

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Visiting Lecturers for The Stock Exchange Programme

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Financial Futures and Options
Institutional Investment Advice

Applicants should send a copy of their curriculum vitae as soon as possible, and no later than Friday 25th July, 1986, to: Sarah Houghton, Coordinator, The Stock Exchange Programme, The City University Business School, Frobisher Crescent, Barbican Centre, London EC2Y 8HB. Remuneration will be negotiable.

University of Warwick

Institute for Employment Research

RESEARCH FELLOWS/ ASSOCIATES

Applications are invited for two research posts in the Institute. Candidates should have a good degree in economics or related subject, preferably at postgraduate level, and a strong interest in applied research in the labour market field. The appointments are of up to three years' duration, commencing on 1 October 1986 or as soon as possible thereafter. Salaries will be within the Research Range 1A (£8,020 to £12,780 pa, under review). Applicants wishing to work part-time or propose job-sharing arrangements will

be considered. Applicants seeking a more senior post may also be considered in exceptional circumstances.

Applications, enclosing cv and giving the names of three referees, should be made to the Director, Institute for Employment Research, University of Warwick, Coventry CV4 7AL, from whom further particulars can be obtained. The closing date for applications is Friday 8 August 1986.

RESEARCH STUDENTSHIPS

Applications are also invited for two two-year research studentships tenable from 1 October 1986. Further particulars and application forms may be obtained from the above address.

University of Auckland New Zealand

DEAN—FACULTY OF COMMERCE (carrying with it a Personal Chair)

Applications are invited for this newly established position within the Faculty of Commerce which includes the Departments of Accountancy, Economics, Management Studies and the Graduate School of Business. The successful applicant, who shall be appointed to a Personal Chair, shall, in addition to customary duties as Dean of the Faculty of Commerce, be the academic and administrative head of the School of Commerce and Graduate School of Business of the University. Appointment to the Deanship shall be for five years initially, and will be subsequently reviewed every three to five years. If the appointee ceases to be Dean he or she will become a member of the Department relevant to his or her Personal Chair.

Salary will be established within the range NZ\$62,000-\$77,500 per annum having regard for qualifications and experience of the candidate concerned. Conditions of Appointment and Method of Application are available from the Assistant Registrar (Academic Appointments), University of Auckland, Private Bag, Auckland, New Zealand, or from the Secretary General, Association of Commonwealth Universities (Appts), 36 Gordon Square, London WC1H 0PF. Applications close 31 August 1986.

University of Surrey

Department of Economics

LECTURESHIP IN ECONOMETRICS

The Department of Economics wishes to appoint a lecturer to commence duties as soon as possible after 1 October 1986. The person appointed would take responsibility for teaching econometrics and quantitative methods at both the undergraduate and postgraduate levels. The successful applicant would also be expected to have a lively interest in economic research. It is intended that the appointment will be made towards the lower end of the lecturer's scale.

Salary will be in the range £8,020-£15,700 per annum according to age, qualifications and experience. Superannuation under USS conditions.

Further particulars are available from the Academic Registrar (AA), University of Surrey, Guildford, Surrey GU2 5XH, or telephone Guildford (0483) 571281, ext 2031. Applications in the form of a curriculum vitae, including the names and addresses of three referees, should be sent to the same address by Friday 22 August 1986 quoting the reference 529/E.

The Queen's University of Belfast

CHAIR OF GEOGRAPHY

Applications are invited from suitably qualified candidates for the Chair of Geography, which becomes available on the retirement of Professor W. Kirk. The appointment will be from 1 January 1986 or such other date as may be arranged. Salary will be within the professorial range with contributory pension rights under FSSU or USS.

Further particulars may be obtained from the Personnel Officer, The Queen's University of Belfast, BT7 1NN, Northern Ireland. Closing date: 12 September 1986. (Please quote Ref. 86/E.)

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APPOINTMENTS

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Department of Administrative Studies
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Applicants may therefore have a higher degree in any relevant discipline, providing their research and teaching interests include the public sector area.

Salary: \$A27,233-35,777 per annum (Lecturer), \$A36,541-42,588 per annum (Senior Lecturer).

Inquiries to Professor A. Fels, telephone 03-541 2313. Applications including ref no 20312, curriculum vitae and three referees to the Registrar, Monash University, Clayton, Victoria 3168, Australia, by August 18, 1986.

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We are looking for a graduate to participate in the evaluation of health care policies and to review and develop methods of evaluating health care in conjunction with medical, statistical and nursing colleagues in the Department. Proven analytical ability is a requirement for the post.

An application form and job description may be obtained from and should be returned to the Personnel Services Manager, Yorkshire Regional Health Authority, Park Parade, Harrogate HG1 5AH.

Closing date: 9 September 1986

Please quote reference number AC 56

Researcher— Housing Finance

Graduate wanted immediately for short term research project to compile an international housing finance fact book. Knowledge of financial markets and institutions essential; languages (especially Spanish) an advantage.

Send brief CV or write for further details to Mark Boleat, Deputy Secretary General, The Building Society Association, 3 Savile Row, London W1X 1AF.

University of Newcastle upon Tyne

Department of Agricultural Economics
TEMPORARY LECTURER

Applications are invited for a Temporary Lectureship in the Department from 1 September 1986. The Lectureship will be for one year's duration. Candidates should hold a good honours degree in Economics or Agricultural Economics. Graduate experience of research and teaching will be an advantage.

Salary will be at an appropriate point on the Lecturers' salary scale: £8,020-£15,700 per annum, according to qualifications and experience.

Further particulars may be obtained from the Senior Assistant Registrar (Establishments), The University, 6 Kensington Terrace, Newcastle upon Tyne NE1 7RU, with whom applications (three copies), together with the names and addresses of three referees, should be lodged not later than, 8 August 1986.

ECONOMIST

We are looking for a Graduate who has specialised in International Economics and feels comfortable with interest and foreign exchange rates forecasting. Exposure to econometric packages, such as TSP would be necessary. Team work, good communication skills and self-motivation would be important criteria for selection. Applicants who can work under pressure and strive to achieve excellence should send a detailed hand written curriculum vitae to: Lonhar Management Systems Limited, Personnel Dept, 18 Jockey's Fields, London WC1R 4BW.

NORTHERN IRELAND ECONOMIC RESEARCH CENTRE

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NIERC is an independent research centre funded by ESRC, Northern Ireland Government, and private firms to study the Northern Ireland economy and related issues in regional economics.

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1. **Senior Research Officer** Preference will be given to those with interests in public sector economics, or agricultural economics.

2. **Research Officer** To undertake research on branch/plant closures in conjunction with Mr S. Fothergill of Reading University.

3. **Research Associate** Joint appointment with Cambridge Econometrics Ltd to work on regional forecasting models. The post will involve working in both Belfast and Cambridge.

Contracts will be for three or four years renewable. Secondments will be considered.

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Research Officer £10,900-£15,600
Research Associate £6,900-£11,300

Applications with curriculum vitae (3 copies) to The Director, NIERC, 14 Wallington Park, Belfast BT9 6DJ from whom further particulars may be obtained. Closing date 15th August, 1986. Informal inquiries are welcome. Telephone 0232 664316.



ASSISTANT ECONOMIST/ ECONOMIST

This vacancy is in the Commission's Economics Department in Milton Keynes which is responsible for the compilation and dissemination of UK, EEC and foreign market information. The successful candidate will be responsible for contributing to the department's various statistical publications and have some involvement in price reporting surveys and forecasting work.

Candidates should have a degree in Economics, Agricultural Economics or a similar discipline. Knowledge of a foreign language and relevant experience is desirable. Depending on qualifications and experience, the appointment will be on scale £6,984-£9,925pa. A well qualified candidate may be recruited at the Economist grade, £9,461-£12,598pa.

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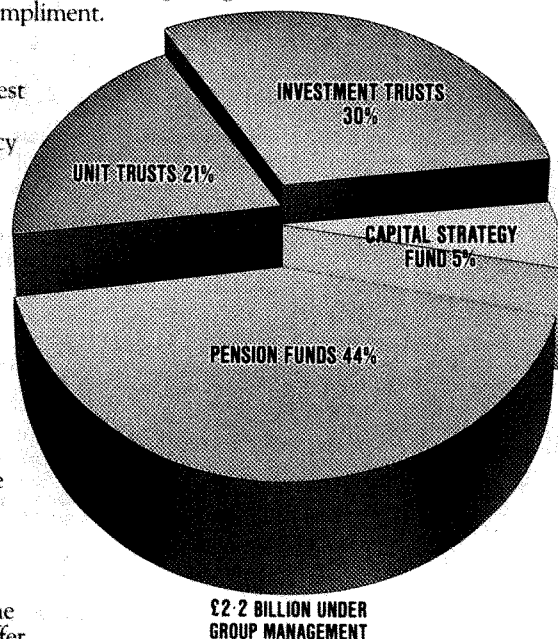
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ECONOMIC AND FINANCIAL INDICATORS 1

OUTPUT, DEMAND AND JOBS More bad news this week: America's industrial production fell 0.5% in June to a level 0.2% lower than a year earlier. Britain's industrial output slumped 1.4% in May to give a 12-month fall of 0.5%. But Italian industry raised its output by 7.7% in the year to April. In June, the unemployment rate was 7.6% in Australia, 9.5% in Canada, 2.4% in Sweden and 0.8% in Switzerland; in all four countries this is lower than a year ago.

% change at annual rate

	industrial production		GNP		retail sales		unemployment % rate	
	3 mths†	1 year	3 mths†	1 year	3 mths†	1 year	latest	year ago
Australia	+ 2.4	+ 3.7 (2)	- 0.5	+ 4.7 (3)	+ 4.3	+ 5.0(12)	7.6 (6)	8.7
Belgium	+ 4.0	+ 3.2 (2)	na	na	- 2.2	+ 0.9 (1)†	11.7 (5)*	12.8
Canada	- 0.4	+ 5.2 (4)	+ 5.4	+ 4.9(12)	+ 2.9	+ 5.1 (4)	9.5 (6)	10.4
France	+ 2.0	+ 3.8 (4)	- 0.4	+ 2.4 (3)	+ 0.6	+ 0.1 (3)	10.0 (5)*	9.8
W. Germany	+ 3.1	+ 2.3 (5)	- 6.5	+ 1.6 (3)	+ 9.9	+ 4.2 (5)	9.0 (6)	9.3
Holland	+ 5.2	+ 5.9 (4)	+ 0.8	+ 2.0(12)	- 7.8	+ 1.7 (4)†	14.6 (6)	15.5
Italy	+21.1	+ 7.7 (4)	- 0.4	+ 2.2 (3)	+15.6	+ 2.2(12)†	13.9 (5)*	12.6
Japan	+ 0.5	- 1.8 (5)	- 2.0	+ 3.2 (3)	+28.0	+ 5.4 (3)	2.7 (5)	2.5
Spain	- 6.5	+ 4.7 (2)	na	na	+28.7	nil (3)†	20.4 (6)*	20.1
Sweden	+ 8.6	- 0.9 (4)	+ 6.2	+ 3.2 (3)	- 3.8	+ 1.9(12)†	2.4 (6)*	2.5
Switzerland	+ 8.1	+ 6.1(12)	- 4.4	+ 2.2 (3)	+12.6	+ 3.8 (2)	0.8 (6)*	0.9
UK	+ 3.1	- 0.5 (5)	+ 2.9	+ 2.5 (3)	+ 6.8	+ 2.5 (5)	13.3 (5)	12.9
USA	- 2.8	- 0.2 (6)	+ 2.9	+ 1.9 (3)	+ 7.9	+ 3.8 (4)	7.1 (6)	7.3

†Value index deflated by CPI.

PRICES AND WAGES American wholesale prices fell by 1.6% in the year to June. During the same 12 months, wholesale prices fell by 10.1% in Japan and 2.8% in West Germany, but in Britain they rose by 4.5%—the second fastest rise of the 13 countries in the table. However, Britain's 12-month rate of consumer-price inflation fell 2.5% in June; Holland's inflation rate slipped to 0.2% and Sweden's rose to 3.8%.

% change at annual rate

	consumer prices*		wholesale prices*		wages/earnings†	
	3 mths†	1 year	3 mths†	1 year	3 mths†	1 year
Australia	+ 2.3	+ 9.2 (2)	+ 7.3	+ 7.9 (2)	+ 9.9	+ 7.1 (2)
Belgium	+ 0.6	+ 1.2 (6)	-10.8	- 7.1 (5)	+16.0	+ 3.0(12)
Canada	+ 3.6	+ 4.1 (5)	- 3.1	+ 0.3 (5)	+ 0.9	+ 3.0 (4)
France	+ 1.7	+ 2.3 (5)	- 2.1	- 0.3 (3)	+ 3.9	+ 4.8 (4)
W. Germany	- 0.9	- 0.2 (6)	- 5.7	- 2.8 (6)	+ 6.1	+ 3.3 (5)
Holland	+ 1.3	+ 0.2 (6)	- 7.3	- 5.5 (3)	+ 1.3	+ 1.4 (5)
Italy	+ 4.7	+ 6.3 (6)	- 7.7	- 1.8 (5)	+ 3.0	+ 7.2 (5)
Japan	- 1.8	+ 0.5 (5)	-15.7	-10.1 (6)	+ 0.2	+ 2.4 (5)
Spain	+ 7.6	+ 7.7 (5)	- 1.3	+ 1.8 (4)	+13.4	+10.0 (4)
Sweden	+ 2.1	+ 3.8 (6)	+ 0.5	nil (4)	+ 2.7	+ 1.9 (4)
Switzerland	- 0.7	+ 0.8 (6)	- 5.9	- 4.2 (6)	+18.9	+ 3.8 (3)
UK	+ 5.2	+ 2.5 (6)	+ 6.6	+ 4.5 (5)	+11.6	+ 7.5 (4)
USA	- 2.3	+ 1.6 (5)	- 5.2	- 1.6 (6)	+ 1.4	+ 2.5 (6)

*Monthly wage rates in manufacturing except Australia, weekly earnings; Japan, and Switzerland, monthly earnings; Belgium, Canada, Sweden and USA, hourly earnings; UK, monthly earnings for all employees.

THE ECONOMIST COMMODITY PRICE INDEX

Times will get even harder for America's farmers. Although feed grain output is expected to fall 15% this season (1986-87), end-season stocks will be nearly four times higher than at the end of 1983-84. Maize prices are likely to be only \$1.92 a bushel—barely above the loan rate. With record supplies, wheat prices could fall 30% from 1985-86 to \$2.25 a bushel. Soyabean prices will remain depressed as vegetable oils are in oversupply worldwide. However, the new farm bill should make American cotton more competitive and triple exports from 1985-86's dismal level of 2.0m bales.

1980=100

	July 8	July 15 (provisional)	% change on one month	% change on one year
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Dollar index

All items	74.0	74.6	- 4.4	+ 1.7
Food	80.7	83.4	- 3.1	+11.1
Industrial				
All	66.8	65.9	- 5.5	- 7.8
Nfa*	73.4	71.4	- 4.7	- 8.1
Metals	61.8	61.5	- 6.0	- 7.6

Sterling index

All items	112.4	115.9	- 4.0	- 5.6
Food	122.5	129.6	- 2.7	+ 3.2
Industrial				
All	101.4	102.4	- 5.1	-14.4
Nfa*	111.4	111.0	- 4.4	-14.7
Metals	93.8	95.6	- 5.6	-14.3

SDR index

All items	81.2	81.9	- 5.8	-12.0
Food	88.5	91.5	- 4.5	- 3.8
Industrials				
All	73.2	72.3	- 6.8	-20.2
Nfa*	80.5	78.4	- 6.1	-20.5
Metals	67.8	67.5	- 7.3	-20.0

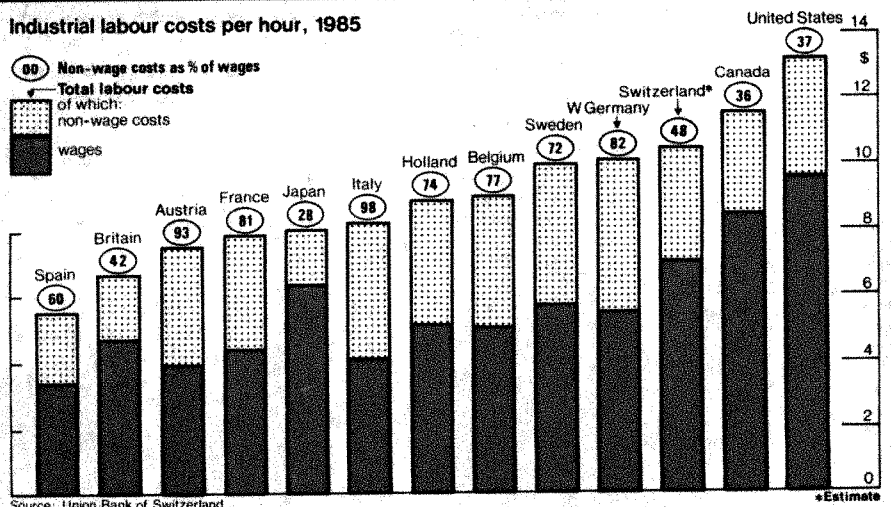
Gold				
\$ per oz	347.25	346.75	+ 3.0	+ 8.4
Crude oil (spot) North Sea Brent				
\$ per barrel	9.70	9.55	-21.7	-63.7

*Non-food agriculturals.

FOCUS: LABOUR COSTS The average production worker in America cost his boss \$13.10 an hour to employ last year. This was more than in any other industrial country—partly because of the dollar's strength. The same worker cost \$10.10 an hour in West Germany and \$8 in Japan. The cheapest worker in all the 13 countries shown in the chart was in Spain, at \$5.50 an hour. These figures include such indirect costs as social security and pension provisions as well as wages. In West Germany, Italy, France and Austria these additional charges were equivalent to more than 80% of the basic wage. In America, Canada and Britain they added only about 40% to wage costs.

Industrial labour costs per hour, 1985

90 Non-wage costs as % of wages
Total labour costs of which:
non-wage costs
wages



Source: Union Bank of Switzerland

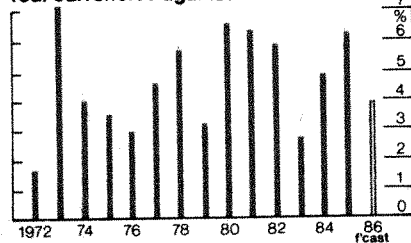
*Estimate

Footnotes applicable to all tables. All figures seasonally adjusted except where otherwise stated. *Not seas. adj. †Average of latest 3 months compared with average of previous 3 months, at annual rate. n.a. Not available. Small figures in brackets denote month of indicator.

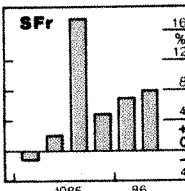
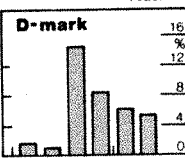
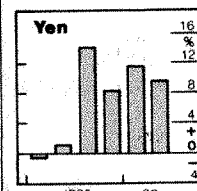
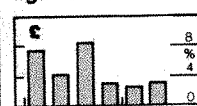
ECONOMIC AND FINANCIAL INDICATORS 2

FOCUS: CURRENCIES Have exchange rates become more volatile in recent years? A study by Lloyds Bank suggests not. Since 1973, the average absolute quarterly movement of the dollar—ie, ignoring whether it rises or falls—against four leading currencies has been 5%. The highest quarterly volatility was 7% in 1973 and 1980; the lowest was 3% in 1976, 1979 and 1983. Last year, the average quarterly movement of the dollar was 6%, though in the third quarter—which included the Group of Five agreement—it was 14%. The economists at Lloyds expect exchange rates to be much less volatile this year.

Average absolute quarterly change of four currencies against dollar



% quarterly change against dollar



Source: Lloyds Bank

WORLD BOURSES Wall Street slumped 2.9% on increased fears about the health of the American economy. The continuing government crisis in Italy knocked the Milan bourse: prices fell 7.4% during the week, for a total of 28% since May.

Stock price indices

	July 15	1986 high	low	% Change on				
				one week	one year	record high	31/12/85 in local currency	in \$ terms
Australia	1122.2	1247.0	1010.8	- 0.3	+ 24.3	-10.0	+ 11.8	+ 5.1
Belgium	3697.6	3746.9	2766.9	- 0.3	+ 61.0	- 1.3	+ 25.6	+ 41.0
Canada	2978.0	3129.1	2754.0	- 0.6	+ 7.3	- 4.8	+ 2.7	+ 4.4
France	364.8	411.3	267.8	- 0.4	+ 66.7	-11.3	+ 37.2	+ 47.2
W. Germany	1845.5	2278.8	1814.7	+ 1.2	+ 33.8	-19.0	- 5.4	+ 6.8
Holland	290.5	294.4	240.4	+ 0.3	+ 35.0	- 1.4	+ 13.6	+ 28.1
Hongkong	1764.1	1865.7	1559.9	+ 0.7	+ 8.0	- 5.4	+ 0.7	+ 0.6
Italy	656.6	908.2	454.7	- 7.4	+ 85.7	-27.7	+ 43.7	+ 62.0
Japan	17882.8	17882.8	12891.5	+ 0.8	+ 40.8	nil	+ 36.7	+ 71.7
Singapore	732.6	776.9	563.3	- 0.1	+ 1.4	-31.7	+ 18.2	+ 13.5
South Africa	1194.7	1203.1	1069.3	+ 0.5	+ 15.2	- 0.7	+ 11.9	+ 10.5
Spain	171.7	194.8	100.8	- 2.2	+111.6	-11.8	+ 71.7	+ 92.2
Sweden	2485.9	2510.6	1729.6	+ 0.4	+ 84.4	- 1.0	+ 43.1	+ 5.1
Switzerland	540.8	625.5	548.6	- 1.4	+ 19.7	-13.5	- 8.0	+
UK	1302.6	1425.9	1094.3	- 1.1	+ 40.3	- 8.6	+ 15.1	+ 19.1
USA	1768.7	1909.0	1502.3	- 2.9	+ 31.2	- 7.3	+ 14.4	+ 14.4

MONEY AND INTEREST RATES American banks cut their prime lending rates by half a percentage point to 8%. The 12-month growth in both measures of America's money supply slowed in June: M1 rose by 12.8% and M3 by 7.4%.

	Money supply		Interest rates %		p.a. (Tuesday, except bonds which are previous Friday)					
	% rise on year ago	Narrow (M1)	Money market	Overnight	Commercial banks	Bond yields	Eurocurrency	Prime	Deposits	Gov't
					3 months	3 months	3 months	3 months	3 months	3 months
Australia	- 0.5	+15.0 (5)	13.00	14.85	17.00	14.75	13.60	14.60	14.60	12.91
Belgium	+ 3.8	+ 7.3(12)	7.25	7.30	10.50	6.80	8.11	9.88	7.13	na
Canada	+ 2.9	+ 4.8 (6)	8.75	8.25	10.25	8.25	9.25	10.02	8.12	9.94
France	+ 4.4	+ 5.6(12)	7.00	7.25	9.60	7.25	7.74	7.81	7.19	8.41
W. Germany	+10.3	+ 7.6 (5)	4.35	4.70	7.00	4.28	6.30	6.00	4.56	6.00
Holland	+ 5.9	+ 4.5 (4)	6.00	5.75	8.00	5.75	6.24	6.76	5.56	6.48
Italy	+10.4	+11.0(12)	12.13	12.13	13.50	11.50	11.03	9.71	11.25	na
Japan	+ 5.4	+ 8.6 (5)	4.50	4.60	4.13	2.13	5.14	6.12	4.75	5.50
Spain	+15.1	+12.2 (5)	12.38	12.83	14.50	6.50	12.41	13.14	13.00	na
Sweden	na	+ 3.0 (3)	10.00	10.15	12.75	9.66	9.61	10.83	9.94	na
Switzerland	+ 5.8	+ 6.1 (4)	2.13	5.06	6.75	4.25	4.43	4.84	5.00	4.93
UK	+22.0	+19.5 (5)	9.00	10.06	11.00	9.94	9.44	10.26	10.03	9.30
USA	+12.8	+ 7.4 (6)	6.31	6.13	8.00	6.05	7.19	8.90	6.56	7.86

Other key rates in London 3-mth Treasury Bills 9.4%, 7-day Interbank 9.7%, clearing banks' 7-day notice 4.4%. Eurodollar rates (Libor): 3 mths 6.6%, 6 mths 6.6%.

†M2 except Australia, Canada, Spain, Switzerland, USA, W. Germany, M3, Japan M2 + CDs, UK £M3. Definitions of interest rates quoted available on request. Sources: Bank of Bilbao, Chase Manhattan, Chase Econometrics, Banque de Commerce (Belgium), Nederlandse Credietbank, Credit Lyonnais, Svenska Handelsbanken, ANZ bank, Credit Suisse First Boston. These rates are indicative only and cannot be construed as offers by these banks.

TRADE, EXCHANGE RATES AND RESERVES Sterling's trade-weighted index fell 2.9% during the week as oil prices dropped below \$10 a barrel. The dollar's trade-weighted value fell 0.4%. Australia's current-account deficit widened to \$10.1 billion in the 12 months to June, from \$8.1 billion in the 12 months to June 1985. In the year to May, Canada's visible trade surplus fell to \$9.2 billion and Spain had a trade deficit of \$5.3 billion.

	Trade balance**			current-account balance \$bn	Trade-weighted† exchange rate		currency units per \$		currency units			foreign reserves††	
	latest month	latest 12 months	\$bn	latest 12 mths	latest	year ago	latest	year ago	per £	per SDR	per ecu	May	year ago
Australia	- 0.17 (5)	- 2.1	- 10.1 (6)	- 10.1 (6)	54.1	68.5	1.56	1.41	2.33	1.86	1.53	6.2	6.7
Belgium	+ 0.33 (3)	- 0.7	+ 0.1(12)	+ 0.1(12)	95.3	90.4	44.6	58.1	66.7	52.8	43.9	6.1	5.0
Canada	+ 0.60 (5)	+ 9.2	- 3.2 (3)	- 3.2 (3)	78.9	87.0	1.37	1.35	2.05	1.62	1.35	2.6	2.4
France	- 0.29 (5)	- 2.5	+ 0.9(12)	+ 0.9(12)	68.9	66.5	6.99	8.76	10.5	8.26	6.87	26.5*	21.5*
W. Germany	+ 3.74 (5)	+ 34.8	+ 21.6 (5)	+ 21.6 (5)	136.5	123.9	2.17	2.89	3.24	2.56	2.13	43.2	38.7
Holland	+ 0.64 (3)	+ 4.2	+ 5.9(12)	+ 5.9(12)	126.4	114.4	2.46	3.24	3.66	2.89	2.40	10.8	9.0
Italy	- 0.58 (4)	- 10.0	- 4.1(12)	- 4.1(12)	46.7	45.3	1482	1868	2216	1770	1460	18.9	19.5
Japan	+ 8.42 (5)	+ 69.1	+ 63.2 (5)	+ 63.2 (5)	213.8	158.5	159.5	238	239	190	157	32.6	27.3
Spain	- 0.50 (5)	- 5.3	+ 3.6 (5)	+ 3.6 (5)	49.0	47.8	137.8	166	206	163	136	11.5	11.4
Sweden	+ 0.48 (5)	+ 3.6	- 1.0(12)	- 1.0(12)	67.4	67.1	7.10	8.40	10.6	8.42	6.99	6.6	4.5
Switzerland	- 0.26 (3)	- 3.7	+ 4.5(12)	+ 4.5(12)	163.2	144.5	1.76	2.39	2.63	2.08	1.73	16.5	13.0
UK	- 1.01 (5)	- 4.6	+ 4.5 (5)	+ 4.5 (5)	73.7	83.1	0.67	0.72	—	0.79	0.66	14.4	9.9
USA	-14.21 (5)††	-162.6	-125.2 (3)	-125.2 (3)	113.3	138.2	—	—	1.50	1.19	0.99	34.2	24.6

*Canada, Australia, Japan, France and UK imports fob, exports fob. All others cif/fob. †Bank of England index 1975=100. ††excluding gold. *March. †† not seasonally adjusted.

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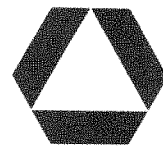
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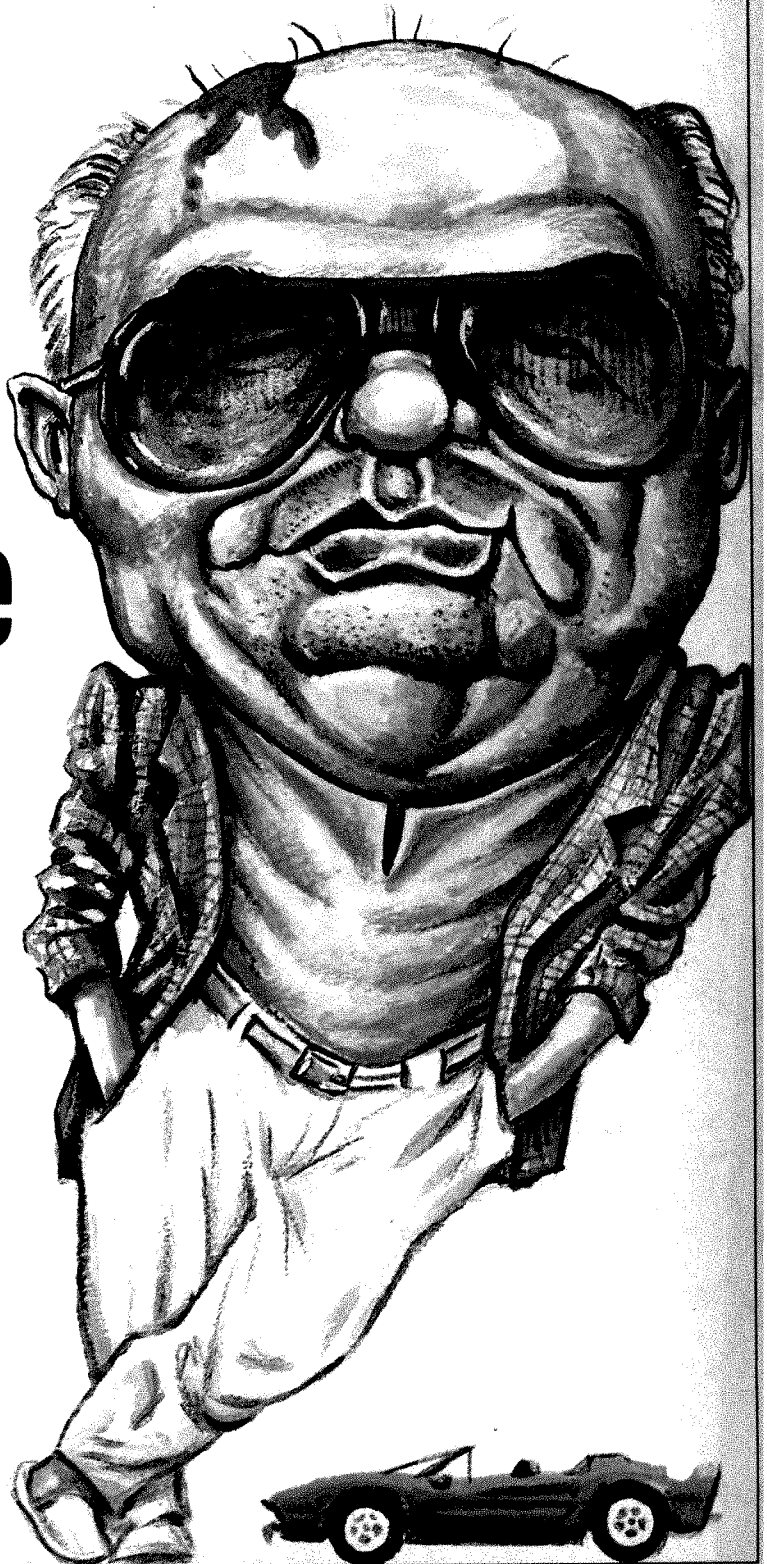
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Streetwise in the Kremlin



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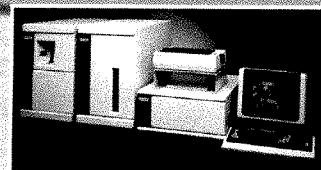
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Streetwise Mikhail

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LETTERS

South Africa

SIR—You are welcome to call South Africa a “third-world tough” (June 21st) if you wish, but the word you should emphasise is “tough”. It is not only the police who are tough with radical elements, but the people themselves are determined to be tough in resisting vitriolic attempts, such as yours, to destabilise our way of life and ruin our economy by discouraging investment. You set out to make investors nervous about the future of our thriving



Courteous and well-trained?

first-world economy by guessing what might happen to destroy it. What you write is pure speculation. You smell blood and want it to flow.

Rather look at the facts. South Africa is a hive of commerce and industry, a peaceful country in which whites and blacks go to work daily and earn their living without fear, thanks to a super-efficient, courteous and well-trained police force who are actually on the most friendly terms with the moderate blacks whom they protect in every township.

South Africa is not afraid of the future. Our export earnings are increasing thanks to the fall in the rand, and we have a favourable balance of trade, with every assurance that it will enable us to repay our overseas loans. The black trade unions are finding their feet and making good progress in bettering the lot of their members. A boom in low-cost housing together with road-building will soon begin to reduce unemployment. South Africa has enough ingenuity to develop im-

port substitution to combat sanctions. We know that many of our exports, such as gold, platinum, diamonds and ferrochrome, are most unlikely to be affected by your attempts to harm our economy.

Edenvale,
Transvaal

M. H. SILK

Europe and America

SIR—Although your leader “Europe without America” (July 5th) lists two (very attractive) reasons for an American military pull-out from Europe, there is a third benefit to America beyond economics and emotional satisfaction: alleviation of the anti-Americanism seemingly so fashionable in Europe today.

It is understandable that Europeans have come to resent having foreign troops on their soil—and the constant reminder of their need for outside military assistance that those troops represent. The sole exception to this sad state of affairs between allies is France, militarily divorced from NATO. In the rhetoric that followed America’s bombing of Libya, few people seemed to notice that France was the only nation in Europe in which a majority of the population approved of the air strike.

Can it be mere coincidence that France, militarily independent, lacks the ostentatious anti-Americanism that the people of Britain, Germany, et al are becoming so famous for? The removal of American military bases from Europe might be the best thing to happen to European-American relations in decades.

Tulsa,
Oklahoma

STEVEN SNYDER

SIR—You assume that the Soviet Union will want to use any military advantage it may come to possess in Europe. A reduction in weapons and a period of peaceful coexistence could surely lead to a greater trust in the intentions of the Soviet Union. To try to ensure that Russia has no military advantage is to condemn Europe to maintaining defence budgets far greater than it can afford.

You also assume that Europe must have nuclear weapons because non-nuclear armies against a nuclear-armed adversary would be like cavalry trotting into machine-guns. This is an extraordi-

nary view. There is no evidence that the Soviet Union would ever consider the use of nuclear weapons against a non-nuclear state. Indeed it is a stated Soviet policy that they would not be the first to use nuclear weapons.

Shoreham,
Sussex

NEVILLE PRESSLEY
CND National Executive

SIR—If the United States were to undertake a troop and armament reduction of 50% over the next five years in Europe, is it not likely that Mr Gorbachev would take the opportunity to help the ailing Soviet economy by making comparable cuts in Soviet forces assigned to the Warsaw pact? If after two years the Russians showed no signs of reciprocating, could not the Americans halt their unilateral force reduction and suggest to their NATO brethren that they restore the balance of military power?

Holmdel,
New Jersey

GEORGE MAEDA

SIR—If you were to poll Americans, you would find support for NATO to be lower than any European country (save for the East European states). The protests over Libya, the callousness exhibited by the shelving of the debate over KAL 007 and attacks on Americans, and the negative experiences of Americans in Europe, have translated to hostility towards European security concerns and interests. With the possible exception of the very isolated East Coast establishment, Europe has very few supporters here. Indeed, the emerging generation of political leaders in both the United States and Europe share one very concrete foreign policy view—mutual disdain.

Teaneck,

New Jersey

ROBERT ZIMMERMAN

King Juan Carlos

SIR—Your leader “Spain Ahoy” (June 28th) has reminded us yet again of the role of King Juan Carlos in steering Spain towards democracy. He has given a welcome new meaning to the name of Bourbon. The king’s resolute action in putting down the attempted coup of March 1981 was a major turning point in Spanish history. The time is long overdue for this defender of democracy and constitutional government to receive the Nobel peace prize for his efforts, an honour which, over the years, has gone to a number of far less worthy people.

Canberra

SUSAN ALEXANDER

Cyprus

SIR—I do not believe that it is the intransigence of the Greeks which keeps the Cyprus question unsolved, but articles such as yours (“Divided we stay”, June 28th), which recognise *faits accomplis* before governments do (the northern part is not “Turkish” as you say, but “Turkish-occupied”).

Perhaps you might like to explain why should the Greeks back down from reminding people that the 1974 invasion, division and occupation of the land was illegal? Why should they stop demanding the withdrawal of Turkish troops? Why should they not oppose the illegal (by international law) population of occupied territory by foreign nationals? Why should the Greeks pursue further guarantees Turkey will not repeat its invasion? Why should they not seek their rights as the majority? Why should they not be offended by Britain, which by treaty was obliged to stop the Turkish rampage in 1974 and since?

Windsor,
Ontario

SPYROS CHIONOS

Basis for vaces

SIR—With reference to Mr D. M. Craig’s letter (“Vexed by VAXs”, July 12th) advocating the Teutonic suffix “en” as the correct plural form, I must observe that the City of London usage adopts the Greek “ces” ending to obtain vaces (cf. unices, xylices).

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RIUNIONE ADRIATICA DI SICURTA'

MILAN - ITALY

The Accounts of Riunione Adriatica di Sicurtà for the year ended 31st December 1985, highlights from which are shown on the right, were adopted at the Annual General Meeting of the Company held in Milan on 26th June 1986. Gross profit amounted to Lit. 64.2 bn while net profit, after special provisions and dividend withholding tax amounting to Lit. 24.9 bn, advanced by 34.8% to Lit. 27.5 bn.

A dividend of Lit. 240 per share payable as from 17th July 1986 was declared on an equity base consisting of five times the number of shares as in the previous year, as a result of the stock split and combined rights and scrip issue made in the spring of 1986. This is equivalent to a 20% increase in dividends over 1984.

Premium income in Italy, excluding reinsurance, was Lit. 1,152 bn, of which Lit. 867 bn was attributable to general business and Lit. 255 bn to life assurance.

Underwriting results were much in line with the previous year. Claims experience deteriorated in some lines, with Third-Party Motor Liability continuing to show a deficit, whereas other classes produced surpluses.

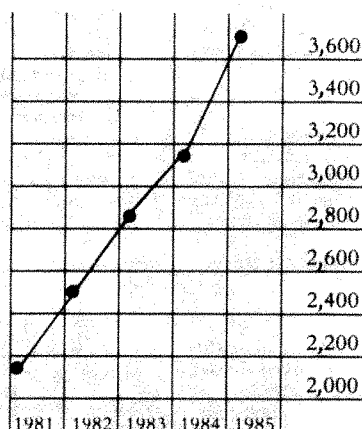
The Company's total investments rose from Lit. 2,308 to 2,685 bn, producing net income of Lit. 247 bn, 15.4% up on 1984.

At a Board Meeting held after the Annual General Meeting, Umberto Zanni was elected Chairman and re-appointed Managing Director.

HIGHLIGHTS OF ACCOUNTS RAS ONLY, DOMESTIC AND FOREIGN BRANCH OFFICES (in billion lire)

	1985
Premium Income	1,493.2
Investment Income	290.8
Claims, Maturities and other Benefits paid	778.7
Insurance Reserves, Non-Life Branch	1,428.8
Insurance Reserves, Life Branch	1,135.3
Life Sums assured	8,463.4
Share Capital	87.5
General Reserves	551.9
Profit for the year	27.5

PREMIUM INCOME OF THE RAS GROUP (ITALY AND ABROAD) billion lire



SALES OF THE RAS GROUP

Premium income breakdown in 1985
(in billion lire)

RAS (in Italy and abroad)	1,493.2
Other Italian Group Companies	326.7
Foreign Group Companies	1,841.4
Total premiums	3,661.4

RAS Group Life Business
Total Sums assured. L. 17,474 billion lire

JULY 26 1986



Streetwise Mikhail

Mikhail Gorbachev is shaping up to be the first hinking-man's Russian leader since Lenin. Clear-minded, self-confident and visibly enjoying power, he impressed the world with his toughness and pur- pose, and with the easy charm that covers them. He does not just want to do a better job of running the old Russia. He wants to make real changes in the way its decrepit economy works. To do that, he admits, he needs to change the way Russians think and act. That means a revolution. The next few years will make Mr Gorbachev's reputation as Russia's Thoroughly Modern Mikhail—or break him.

He cannot afford to think small. After 20 years of steadily declining growth rates, mostly in making things that a cost-effective country would not now want to make anyway, Russia's old revolution has ground to a halt, just as the United States and Japan are leaping into the technologies of the twenty-first century. The main thing Mr Gorbachev has done so far is to make it clear to a fascinated world that his country is in even worse economic shape than almost anybody had realised. He has thereby drawn attention to the daunting size of his task.

The corrupt, the drunk and the work-shy have all felt the toe of his boot. But Mr Gorbachev, to his credit, sees that playing cop is not enough. His public-relations men and his journalists have been given licence to attack the old ways and start telling ordinary Russians what western economists have been saying for years: that Russia isn't working. The first skirmish in the battle to modernise Russia is that Mr Gorbachev has reinstated words like "reform" and "innovation" in the Communist party's vocabulary. The battle itself has yet to be joined. Ranged against Mr Gorbachev and his allies in the fight for Russia's future is an army of people trained and mind-set in the steel-girded, initiative-stifling central-planning system.

It's broke, so fix it

Mr Gorbachev is not the first man who wanted to change Russia. Ever since Peter the Great three centuries ago, periodic bursts of enlightenment have been decreed from the top. They have always fizzled out, and Russia has sunk back into the gloom. The historic heaviness of the Russian character, which defeated those earlier attempts, is reinforced by the

post-1917 one-party system. The Khrushchev years were the last period of optimism that things could be done better in the Soviet Union. But Khrushchev's enthusiasm frightened the party, and the party eventually had its revenge: he was dumped, and hope of economic reform was smothered for a generation.

Mr Gorbachev is more sophisticated than Khrushchev, and more modern. More sophisticated, because he knows better than to repeat the revolving-door appointments and change-for-change's-sake that antagonised Khrushchev's would-be supporters. More modern, because he is prepared to acknowledge—in words, anyway—that economic change in the Soviet Union requires deep social change too. To achieve such change, Mr Gorbachev needs the courage to dismantle large parts of the system that has produced stagnation and immobility.

In the new spirit of honesty, some Soviet spokesmen publicly admit—see the remarkable letter by Mr Leonid Abalkin in the *Financial Times* of July 12th—that the long years of dutifully carrying out orders from above have produced the wrong kind of people to run Mr Gorbachev's Brave New Russia. The Gorbachev purge has so far barely scraped the top layer of the encrusted mass of officialdom. Simply telling old-style yes-minister managers to take more of their own decisions will not work, because they do not know what taking decisions means. The replacement of old duds by lively new men has to go much further.

But even if Mr Gorbachev can find the necessary hundreds of thousands of new Gorbachevite managers, and even if he can tell the central fusspots to stop fusspotting, a second upheaval is necessary. If the new men are to use their own judgment, and take their own decisions, they need some new criteria to replace the old dictates of the central planners.

Mr Gorbachev has to find something, call it what he likes, which can do for the Soviet economy what the market does under capitalism: create a link between what people want to buy and the most efficient means of producing it. That will involve a radical overhaul of the pricing system. Until now the central planners have pulled prices of raw materials, goods and services more or less out of thin air. It would be romantic to expect Mr Gorbachev to abandon price-fixing entirely; but a far wider range of prices will have to be allowed to be set by

what the market wants. To make sure that happens, party officials all the way down to village level have to be stopped from poking political noses into business decisions.

If Mr Gorbachev can see the logic of these reforms—and it seems that he can—he can also guess at their consequences. Whatever its head says, the great body of the Communist party will fight the loss of power and privilege that management by market will mean. Work-

ers at the bottom of newly differentiated pay-scales will resent the success of smarter colleagues working their way up. There will have to be an end to the old they-pretend-to-pay-us-and-we-pretend-to-work social contract that has kept Russians quiet in return for low wages, low prices—and the lowest standard of living ever imposed on a people as genuinely well-educated as they. It means revolution. Is Mr Gorbachev streetwise enough to try it?

The Queen is not amused

Mrs Thatcher's South African policy has upset the Queen, but not the constitution



The British monarch is apparently worried about the impact on the Commonwealth of her prime minister's policy towards South Africa. She is so worried that she may, or may not, have let one of her advisers in the palace communicate her fears to the wider world through a confidential press briefing—a contradiction in terms, but a technique also much employed by Mrs Thatcher. The *Sunday Times* last week said that the Queen had also had misgivings when Mrs Thatcher permitted American aircraft to use British bases from which to bomb Libya; in addition to which, she felt that her prime minister often lacked compassion, and had seemed uncaring during the miners' strike. The story has been regarded as an offence to constitutional propriety, which requires that the truth of any disagreement between monarch and prime minister be concealed from public knowledge.

In reality, Britain's constitution is a proudly flexible creature. References to its propriety tend to be employed to make more respectable a simply political argument. Over British policy towards South Africa—the issue in this reported disagreement which is current enough to matter—the constitution is not at issue. Mrs Thatcher is the head of a democratic government. The monarch has, in all but the most freakish circumstances, no discretion over the prime minister's election or appointment. Mrs Thatcher's policies are for Mrs Thatcher to decide, with the approval of Parliament and ultimately the electorate.

Neither Palmerston nor Victoria was damaged

Like all prime ministers, Mrs Thatcher has been schooled in Bagehot's nineteenth-century maxim that the monarch has a right to "be consulted, to encourage and to warn". This right is best exercised in private. Such force as it has comes from the confidential hint, not the newspaper headline. The right imposes no duty on the prime minister to go along with any warning, or encouragement, from the throne. These rights and duties are supported not by statute, but by custom—a custom frequently honoured in the breach. Palmerston rode roughshod over the shrill Victoria, and neither of them suffered from it. Mrs Thatcher can treat the Queen with as much or as little regard in political

matters as she chooses, particularly where she might feel the palace has a vested interest.

On the Commonwealth, a vested interest is precisely what the Queen does have. She is its most ardent and proper lobbyist, as well as being head of state for some of its members. Yet the Commonwealth is becoming redundant, if not slightly absurd. Its usefulness to Britain as an aid to decolonisation is now past. It contains some awful military or strictly personal dictatorships, operating within one-party states.

Most of these rulers maintain a curse on British governments for the colonial doings of their predecessors, the better to obtain more aid and pursue their natural vendetta against South Africa. At times, the new Commonwealth appears to have no coherent identity except in campaigning against that particular state: this week's last-minute boycott of the Edinburgh Commonwealth Games being just the latest instance. The Commonwealth secretary-general, Mr Shridath Ramphal, former foreign minister to the blatantly-racist Mr Forbes Burnham of Guyana, is the most sophisticated conductor of the campaign against racist South Africa; by most of his own rules, his racist nat country should not be within the Commonwealth now.

Nonetheless, the Queen's continued support for the Commonwealth, warts and all, is legitimate and well within Bagehot's rules: having been consulted, she has now warned. What she may not do is campaign, and none of her anonymous advisers in the palace may do so either. That would clearly put the Queen in a position where her role as head of the Commonwealth would clash with the apolitical tradition of her office.

What is equally clear is that the British government is under no obligation, constitutional or otherwise, to pay her attention. That, of course, is not the end of the matter. Whatever the strength of her constitutional position, Mrs Thatcher should be seriously concerned at any opposition from so distinguished a source. As the cheers along her son's wedding route again showed this week, the Queen is a popular and experienced public figure. Although the same may not go for most Commonwealth leaders, the Queen has over the years brilliantly turned the Commonwealth as an institution into a matter of national pride. Mass defections from it

would not stand Mrs Thatcher in good stead, nor would any failure to show deference to the Queen's view of the matter. In a stand-up fight, Mrs Thatcher could come off the loser, however much political rectitude is on her side. Whether or not the Queen knew in advance of the press briefing—which her entire career suggests is

inconceivable—the affair has thrown down a discreet gauntlet to Britain's prime minister. Mrs Thatcher will need all her skill to avoid having to pick it up, especially as later this week a renewed row over the Westland affair seems bound to throw wounding criticism on the ways in which she uses her own press advisers.

How to tell a terrorist



Three questions to ask before you start mumbling about "freedom fighters"

Terrorism is nothing new—its modern era was kicked off a century ago by Russia's *narodnaya volya* bombers and assassins—and it is not about to go away. Despite the prophecies of all of President Reagan's critics, America's bombing of Libya in April has apparently had the welcome result of reducing Libyan terrorism (see page 22). But in the past fortnight Spain has suffered two Basque terrorist bombings, one of which killed ten people, and West Germany an attack by the Red Army Faction that killed a senior executive of the electronics company Siemens. Peru's centre-left democracy no longer goes many days without a bomb blowing up in its people's faces.

There will be more attacks. The magic of terrorism has always been its power of magnification: an act of violence which would be too puny to be noticed if it were directed against the armed forces of a state can be turned into a psychological blow strong enough to shake a society if it is directed against a few ordinary and unarmed people. Thanks to the modern technologies of weapons, television and travel, the enlarging power of terrorism has never been greater. The spiritual heirs of those nineteenth-century anarchists who invented "propaganda by the deed" would not dream of walking away from deeds that now yield so much propaganda.

The democrats' task

Democracies, not tsars and the like, are almost always the target of terrorism these days. The main danger for democracies in their next-to-unending fight against it is that their peoples will not have a clear enough picture of their enemy: so that democratic governments may not be as tough as they need to be to contain the threat. Few people now succumb to the romantic picture of the terrorist. But many still think that "one man's terrorist is another man's freedom fighter." He isn't. The democracies victimised by terrorism must keep the difference clear if they are to mount effective attacks on terrorists and the states that back them.

The main reason terrorists and freedom fighters blur in many people's minds is that attacks on non-combatants are a frequent by-product, and occasionally a centrepiece, of military strategy in modern wars. It has been a long time since non-combatants did not predictably die in a military attack. Sometimes their deaths are intended: it is hard to call the Dresden and Hiroshima

bombings in 1945 anything but terrorism. Yet the second, at least, helped to end a terrible war.

Several things nevertheless distinguish terrorist violence from the legitimate use of force to attain political ends. The first distinction is between perpetrators. States have repeatedly shown themselves capable of committing terrorist acts, including ones directed against their own citizens. But the force used by a state, especially in its conflicts with other states, has to be weighed in a different balance from the force used by freelancers who take it upon themselves to conduct politics with the bomb and the gun. Among other things, whole societies speak for larger interests than a few individuals do.

Violent resistance to the authority of the state is often justified: not a few of today's presidents and prime ministers were yesterday's guerrillas. Yet not every use of force is warranted, even against a ghastly government. The second ground for distinguishing terrorism from other insurrectionary action is the intentions of those carrying out the violence. Military operations mounted by armies or guerrillas will frequently lead to the deaths of non-combatants, because they are in or around the military target being aimed at; but harming them is not normally the purpose of the operation. The whole point of an act of terrorism, by contrast, is to attack targets that have no military value. A terrorist intends to harm non-combatants: they are the means by which he exerts his effect on others.

This suggests the third, and strongest, reason for distinguishing terrorism from other uses of force. The essential feature of modern terrorism is the severing of the link between the target of violence and the reason for violence. All varieties of terrorism strain that link, but not all cause it to snap. This is why some terrorists are more sympathetic than others. The nineteenth-century Russians who assassinated cabinet ministers stand at one end of the terrorist scale; so do the bombers of Dresden and Hiroshima. At the other end stand the Palestinian hijackers who last year put a bullet through the head of a wheelchair-bound American on board an Italian cruise ship because they wanted to get back at Israel.

It may seem ghoulis to make judgments about the relative virtues of different kinds of terrorism; but it makes a difference in how firmly the West should respond to international terrorism. (Apart from help

such as extradition treaties, each country has to handle the national sort on its own.) A terrorist attack is less awful the closer the connection between the target and the grievance, and the fewer the democratic opportunities there are for remedying the grievance. Airline hijackings are always unacceptable; so are attacks in countries, such as Britain and Spain, where the complaint can soon be put to the vote. South African blacks

who mount attacks against the white government of their own country have a better case to argue.

The international terrorism that democracies must be utterly merciless about is the kind in which the victim of the terror and the reason for it are complete strangers. The West should prepare for more of it, because unfortunately it is also the kind that technology has made especially attractive to terrorists.

Rigged chips

If the Americans bully the Japanese into joining a chip cartel, they will be repeating their worst industrial mistakes of less than a decade ago



America's precocious semiconductor industry is fast learning the bad habits of its industrial grandparents: cars and steel. In Washington this week, lobbyists and bureaucrats huddled over schemes to replace price-cutting Japanese competition with a government-administered market carve-up. In California, the Semiconductor Industry Association polished plans for industry-wide rationalisation. Car and steel magnates tried both these ploys years ago, and flopped.

Like Detroit and Pittsburgh before, Silicon Valley is plagued by overcapacity, cut-price competition from abroad, and debilitating losses at home. After the electronics boom fizzled out two years ago, America's semiconductor firms were left with enough capacity to make twice as many microchips as their customers needed. With production lines costing \$100m a throw, prices were slashed as firms tried to get some return—any return—on their overexpensive plants. In 1985, when world chip sales totalled \$21.5 billion, American chipmakers alone lost as much as \$1 billion. Although sales this year are expected to bounce back up to around \$25 billion, losses continue. So, predictably, do American complaints about Japanese competition.

Fight competitors, not competition

The United States Commerce Department accuses a number of Japanese firms of dumping memory chips into the American market at less than half the cost of making them. But the Americans are demanding more than countervailing duties—the usual remedy for below-the-belt competition proposed by the General Agreement on Tariffs and Trade. They want Japan's Ministry of International Trade and Industry to raise Japanese chip prices higher worldwide, so that less efficient American suppliers can compete with them.

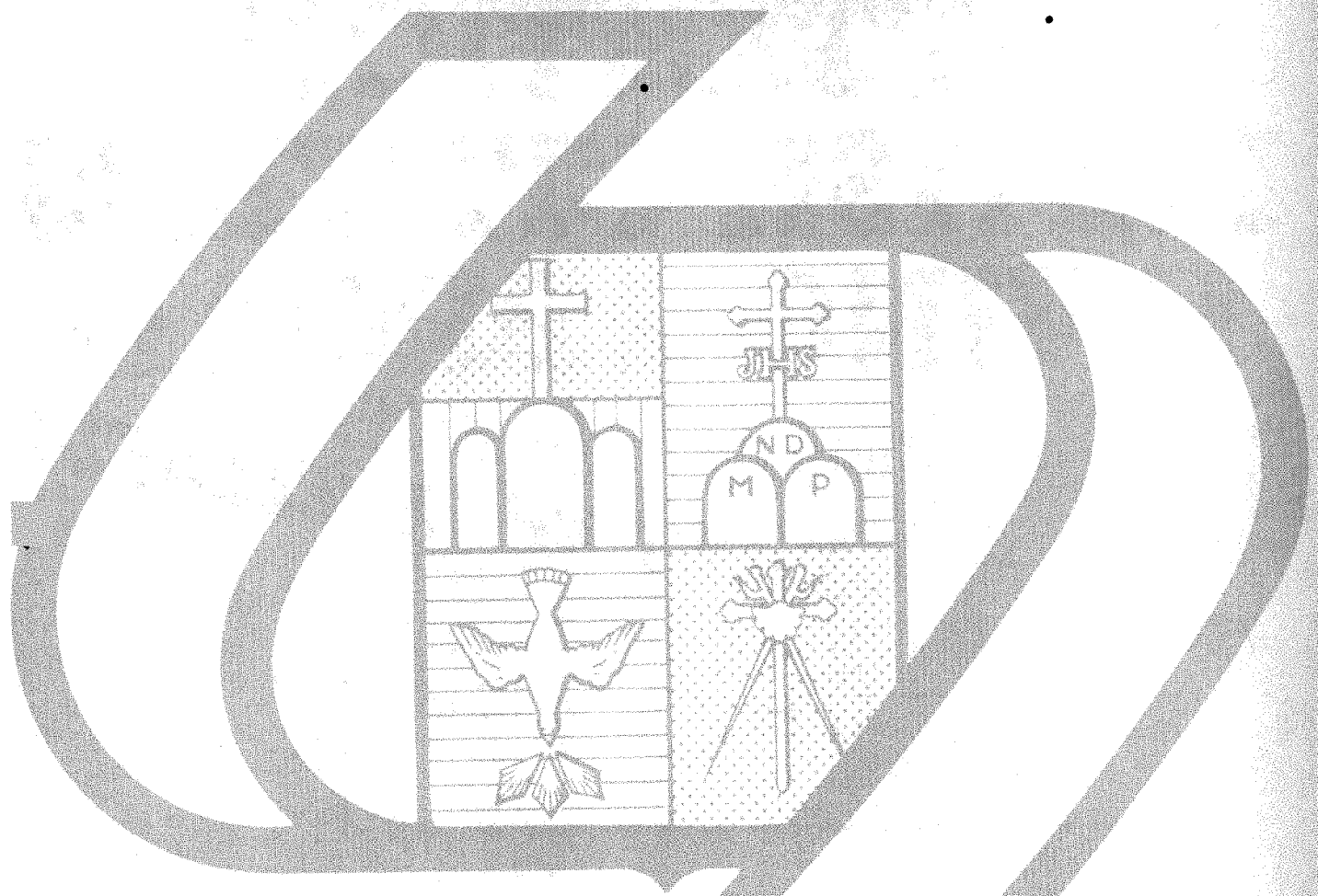
American chipmakers will be making every conceivable mistake if they let themselves be drawn by their own officials into a cartel with the Japanese. This would cut much of their own business from beneath their feet; send customers to buy microchips made in South Korea; and, above all, be the nicest present they could give to Japanese chipmakers. Detroit could tell California why. American politicians bullied the Japanese into "voluntarily" restraining their share of the United States car market in 1980—so sanctioning one of the

worst import cartels to hit the American public in the pocket. The deal stopped Japanese carmakers from beating each other to death in the compact car market—and handed them the time, money and incentive instead for developing the bigger, more profitable cars that Americans prefer. Now Detroit is moaning that the Japanese have stolen their luxury car market too.

Exactly the same would happen in chips. Although Japan's mass-production wizardry has allowed it to dominate markets for cheap commodity chips, Silicon Valley's design skills have kept it on top in profitable up-market devices like microprocessors, signal processors and custom chips. If the Americans now insist on forcing the Japanese to raise prices of their cheap little memory chips (or face dumping duties), intelligent firms like Fujitsu, Hitachi, Matsushita, Mitsubishi, NEC and Toshiba will get windfall profits and a clear message from the market: use those windfall profits to catch up faster on microprocessors.

Silicon Valley's lobbyists should tell their clients to cut their own losses. Many American firms have already pulled out of the memory chip business—including Intel, Mostek and Motorola. More will fall during the next two years as the market takes up the next generation of "megabit" memory chips. Deep-pocketed AT&T and IBM are already making megabit chips for their own products, and look like being the only American firms with enough financial clout to compete with the Japanese in the open market. The retreat from making commodity chips has been—and will continue to be—painful for American semiconductor firms. In the past, these chips have provided bread-and-butter profits plus useful development knowhow for mass-producing the more complicated (and vastly more profitable) microchips bought by customers in telecoms, aerospace and industrial electronics.

But the alternative is to follow Detroit—ie, open the door for the Japanese to their own luxury market. And not Detroit only. America's steel barons won both restrictive trade deals and government support in the 1970s. The concessions tempted them to ignore the market realities, with foreseeable results. America's largest steelmaker, USX, is once again in the throes of a painful restructuring. Its second largest steelmaker, LTV, last week shuddered into bankruptcy.



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After Hassan, Hussein?



No. Even though it is good news that Peres has visited King Hassan, the road to an Israeli-Arab peace isn't that straightforward

The visit of an Israeli prime minister to an Arab head of state on Arab soil is momentous. Nothing like it has happened since Mr Sadat went to Jerusalem nine years ago. This week's flight by Israel's Mr Shimon Peres to talk to Morocco's King Hassan is only the second such public reaching across the Arab-Israeli divide. Symbols matter in the Middle East, and the picture of Israel's leader shaking hands with a crowned descendant of the Prophet is a symbol of hope.

How much substance is there behind the symbol? The Arab reaction this week has been strikingly different from that of 1977. Of course, Egypt is the biggest Arab country, and an essential component of any Arab alliance against Israel, whereas Morocco floats on the western fringe of the Arab world. Even so, the Arab response has so far been remarkably muted. Only Syria, the chief of the no-deal-with-Israel camp, immediately snapped its ties with Morocco. Egypt applauded. Jordan mumbled. Saudi Arabia climbed on to its usual fence, no doubt getting ready to tut-tut ineffectually. Even Mr Yasser Arafat of the Palestine Liberation Organisation bided his time.

More and more Arabs are coming to accept the reality of Israel. A decade ago, it would have been unthinkable for King Hassan, having publicly welcomed an Israeli leader to his summer palace, to remain chairman of the Arab League. If he stays in that seat, the symbol will glitter even brighter.

The chances of turning this change of mood into a

Middle East peace treaty, however, are still as misty as ever. The search for an Arab-Israeli settlement collapsed in February, when King Hussein of Jordan decided that Mr Arafat's wing of the PLO, which still represents most Palestinians, was not serious about negotiating with Israel. Three months from now Mr Peres hands over Israel's prime ministership to Mr Yitzhak Shamir, who seems unwilling to return any part of Israeli-occupied territory to any Arab. The unnatural coalition between Mr Shamir and Mr Peres may come apart at any time, and Mr Peres's trip to Morocco could win him some votes in war-weary Israel. Since Mr Peres is a man who might make peace, that is helpful; but it is all depressingly hypothetical.

And yet Morocco would hardly have flung open its door to Mr Peres merely for the sake of his brown eyes. Perhaps King Hussein of Jordan, behind his knowing-nothing-about-it ambiguity, is hoping that the Morocco-Israel meeting could pave the way for a Jordan-Israel one. King Hussein has for the time being given up on Mr Arafat. He may be hoping for the slow emergence of a more malleable Palestinian leadership on the Israeli-ruled West Bank. Mr Arafat is going through a difficult period and may not recover. But he is not through yet. King Hussein knows he needs a Palestinian of stature to join him in any negotiation with Israel. No such figure is yet in sight. That is why the signs of a broadening Arab recognition of Israel, though welcome, do not point to peace tomorrow.

Way to run a railway

British Rail is becoming more business-like. A bit more freedom—even a sort of denationalisation?—could make it more so



The train pulling into the Euston headquarters of Britain's state-owned railway is looking more and more like a privatised one. Never forget, of course, that it still gets a £900m-a-year handout from Mrs Thatcher's government—to keep stations in marginal Tory seats open and operate trains to places where no businessman in his right mind would run a railway. But, if you ignore that, it has just turned a £420m operating loss of a year ago into a small pre-tax profit (see page 48).

Deregulation has been good for British Rail. It has long been free (unlike American railways) to set its own fares and frequencies. It has been able to push prices up where demand is inelastic, and free to discount off-peak services ruthlessly. Where there is real competition for passengers from the newly-deregulated long-distance buses (eg, between London and Newcastle), BR has

more than held its share. While many a "Freddie Laker of the Motorway" will go bust offering discount travel to people who rarely travelled before, rail is now taking more of those new customers. All told, BR is on track to be charging market prices for its intercity services by 1990. By then, only passengers using local trains in the provinces or commuter trains into London may be getting a subsidised ride.

The £260m loss on freight a year ago has also been all but wiped out, and BR has two bright freight hopes ahead. The real opportunity in the channel tunnel is not that, when dug, it will halve the rail journey time for passengers travelling from London to Paris or Brussels. It is that non-stop freight trains could knock a couple of days off the time taken to deliver wagons and containers from some places in Britain to continental cities. That is

going to make exporters think hard about whether to put their goods on tachographed juggernaut lorries. BR's fleet of 10,000 cross-channel rail wagons—currently being shuttled to and fro by train ferries—will increase enormously in productivity and size once the tunnel is in operation. With a through freight service to most continental cities, BR could offer shipping lines "one-stop" deliveries to Europe via ports like Southampton, Felixstowe and even Liverpool.

And those lovely traffic jams

Next, BR should gain from worse road traffic jams. Both of Britain's transport networks—rail's 10,000 miles of track and road's 9,000 miles of trunk routes and motorways—are unlikely to change much in the coming decades. Beeching-style railway closures today would involve axeing a whole regional network (eg, Bristol and south-west England), which is politically unthinkable. And building more motorways where they are needed (eg, around London and in south-east England) loses more votes than the jobs it creates. Compared

with most other industrial countries, Britain already moves more than twice as much freight by road as by rail—and road traffic is still growing ahead of GDP, at around 4% a year. It cannot go on growing like that while motorway mileage stands still.

Although private motorists may choose to stew in traffic jams, freight forwarders surely won't. Container traffic will switch from road to rail as more motorways become as clogged as the recently opened M25. BR should soon start replacing its fleet of old freight locomotives, and buying lots of new wagons and handling machinery. In the past, nationalised BR has usually had to buy equipment made expensively and unreliably in Britain (like its Class 56 and 58 locos). Getting rid of its own engineering works is a step in the right direction. But, to be really competitive, BR should now be allowed to buy equipment wherever it can get a sensible bargain. In rail freight, that means America. It might be easier for a privatised BR, albeit still carrying that subsidy for keeping open uneconomic lines, to move in that direction.

Chocolate fruit and nut

The tin crash showed that commodity agreements don't work. Why sign even a slightly better agreement in cocoa?

Governments that have just agreed to a new international cocoa pact should ask themselves: why? Commodity pacts mean playing God in markets, and with teams that are not equipped to play Him well. International bureaucrats spend long months and pleasant expense accounts in Geneva hotels, bargaining about what price for cocoa should be called "too low" and what "too high". They then take taxpayers' money so that the International Cocoa Organisation (ICCO) can buy cocoa into a buffer stock when the market price goes "too low" and sell from stock when it goes "too high" (which nowadays it doesn't). These agreements are meant to reduce price instability, but since propped prices increase supply and restrain demand they are bound eventually to intensify it.

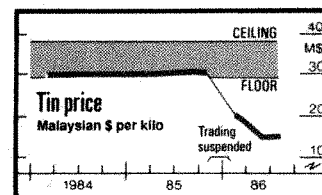
Until last year, tin was cited as the most successful commodity agreement, because the buffer stock's manager had recently kept market prices within the agreed band. This was because he was buying vast amounts of the metal with taxpayers' money he had not actually got. When the bubble burst, the people from whom he had been buying were bilked and 500 Malaysian and Thai tin mines crashed out of business. The use of tin was undermined when prices were propped, but has been resuscitated by the collapse of pact and price.

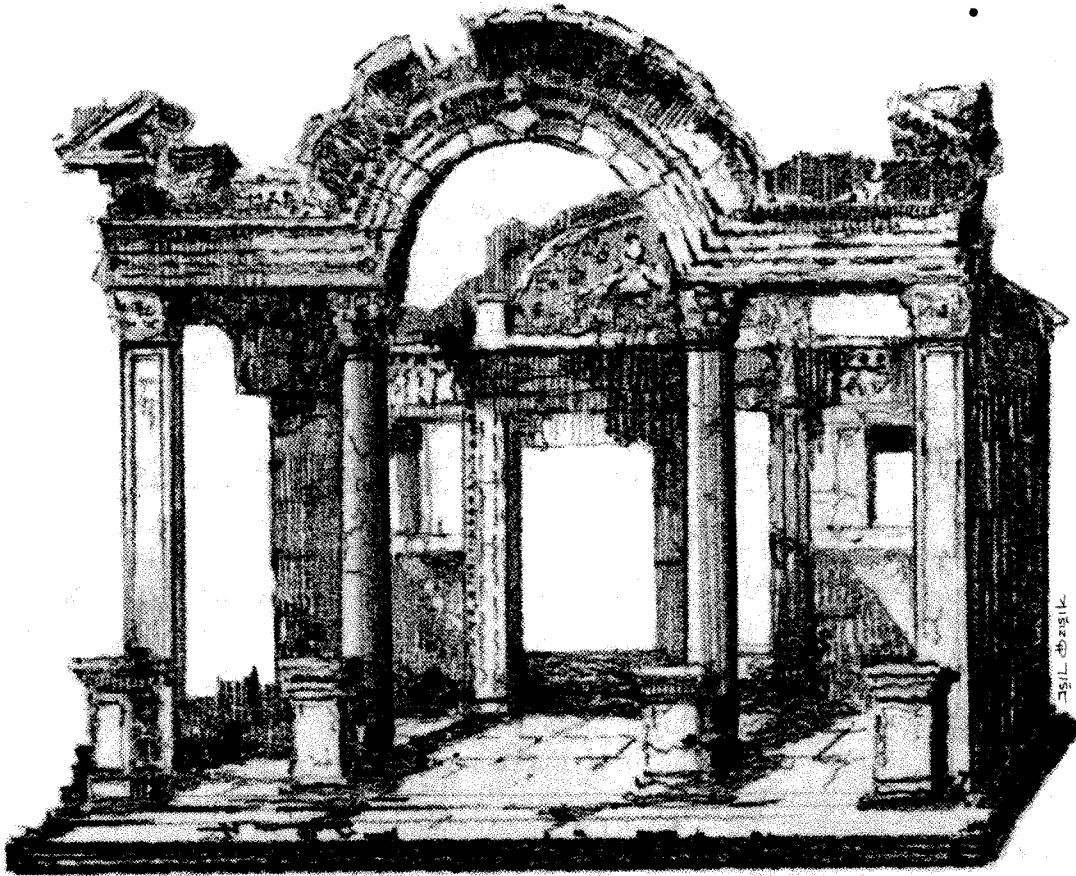
The cocoa pact is not strong enough to blow such a big bubble. Cocoa's largest consumer (the United States) and its fastest-growing producer (Malaysia) have sensibly kept outside. Among genuine improvements, the ICCO will now use a sort of crawling-peg mechanism to adjust the price levels it defends. The agreement has been struck because other EEC countries

(the main consumer-signatories) wanted to please France, which had induced the Ivory Coast to be a producer-signatory; and because the existing ICCO has a buffer stock rising above 100,000 tonnes—so cocoa producing Brazil and Nigeria could become even worse debt-cases if ICCO disappeared and this stock was suddenly sold. Typically, it has been decided to avert problems from an overhanging buffer stock by an agreement which means the buffer stock will grow.

In the past, cocoa prices have sometimes soared when supplies have been destroyed by tropical pests or government marketing boards (which in some African countries divert cocoa revenue to bureaucrats away from farmers, so farmers stop producing the stuff). Both nuisances are likely to be diminished, by genetic engineering and wiser African economics. Cocoa makes chocolate, and a diet-conscious Europe and America are jogging away from eating it. The new cocoa pact tries mildly to instal the wrong prices in the face of increasing supply and drooping demand, so it will be of main benefit to cocoa's substitutes.

Cocoa producers and chocolate manufacturers do sometimes need to plan for what their incomes and costs will be six months ahead, and can hedge by using futures contracts traded on the exchanges. The joy of hedging is that it is optional. Those producers most vulnerable to wild price movements can use it, while those with competitive ability need not. Commodity agreements, by contrast, need consensus among competing producers and consumers, which can usually be reached only on terms acceptable to the highest-cost producer in the convoy, so the whole convoy sinks.





The Hadrian Temple (130 A.D.), Ephesus-Turkey

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Enhancements to NATO's air command and control system will include provisions for interoperability among all member nations, as well as a variety of systems that will prevent gaps in the network. These enhancements to NATO's C³I (Command, Control, Communications, and Intelligence) system will also include the expanded use and reliance on advanced high-speed digital computers to sort vital information from sensors and immediately relay it to commanders in the most useful form. Hughes Aircraft Company is part of an international team that is studying NATO's needs and defining just how the command and control network should be upgraded.

Any military aviator helicopter helmet can be equipped with a night-vision system designed for use by pilots of helicopters. The Aviator's Night Vision Imaging System (ANVIS) is a helmet-mounted binocular that intensifies nighttime scenes illuminated by faint moonlight or starlight. It uses advanced optics and mechanical components to offer high performance in a rugged, lightweight package. Helmets equipped for ANVIS include the U.S. Army SPH-4, the U.S. Navy SPH-3, and helmets for UK Army and French Army helicopters. ANVIS is also compatible with the TOW Cobra day sight. Hughes Optical Products, a Hughes subsidiary, builds ANVIS for the U.S. Army.

Simple to use and extremely accurate, the TOW anti-tank missile has become a worldwide standard weapon for defense against armor. The gunner holds the sight cross hairs on the target and presses the trigger. The launch rocket motor burns only while the missile is in its launch container, so there is no back blast after the missile leaves the tube. When the missile emerges, the wings unfold, the infrared tracking source in the tail turns on, and a few meters later the flight rocket motor ignites and burns for about one second. The infrared tracker in the launcher senses radiation from the source in the missile, detecting when the missile veers away from the line of sight. Computer-generated commands, sent over two wires that unreel from the missile, keep TOW on target. Hughes has built TOW for the U.S. Army and Marine Corps and over 30 nations.

Four sophisticated antennas will let Intelsat VI communications satellites concentrate signals on four major population areas on Earth. The four squareax antennas used in combination represent a multitude of technology breakthroughs made possible through advanced computer-aided design/computer-aided manufacturing (CAD/CAM) techniques. The antennas receive microwave signals from Earth and retransmit them with pinpoint precision. Without the squareax antennas, those signals would be uselessly dispersed over populated and unpopulated areas alike. Hughes designed and built the antennas and is heading a team of international aerospace companies that is building the Intelsat VI satellites.

Chemicals used in electroplating printed wiring boards will be monitored continuously with the advent of new manufacturing technology at Hughes. The process involves remote fiber fluorometry, originally developed at Lawrence Livermore National Laboratory. This technique uses lasers and optical fibers to measure the level and composition of chemical baths based on the fluorescence of these solutions. The project is part of an Industrial Modernization Incentive Program (IMIP) awarded by the U.S. Navy and Air Force to help create the electronics factory of the future. IMIP is a share-the-savings concept that will reduce costs of the F-14, F-15, and F/A-18 Hornet Strike Fighter radar programs by more than \$10 million, while improving the quality and reliability of the systems.

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INTERNATIONAL

The dance of three Chiangs

FROM OUR SPECIAL CORRESPONDENT IN TAIPEI

The Nationalists who rule Taiwan in the name of China have long thrived on adversity. They survived the decision of the United Nations in 1972 to admit the other, bigger China as occupant of the Chinese seat. They got over America's decision seven years later to send an ambassador to Peking. They brush aside the occasional veiled hints from the mainland about some future military takeover of Taiwan. But now they face a challenge of a different sort. These days, as they sit on their island, the real threat to the Nationalist leaders comes from within: from their own advancing age, and from the growing political demands of a young and educated middle class.

Nearly 40 years after Chiang Kai-shek led the defeated Kuomintang into their island exile, octogenarians purporting to represent distant provinces of the mainland still roll up in wheelchairs to party meetings. But today more than 60% of the members of the Nationalist party are under 35, too young ever to have set eyes on the mainland unless they have slipped in as tourists. A third of the members are professional people, civil servants or military men, including ex-servicemen. President Chiang Ching-kuo, Chiang Kai-shek's son and successor, can add up. The gradual economic and political advancement of native Taiwanese at the expense of exiled mainlanders has already upset some old Kuomintang stalwarts. The president knows that his party's survival depends on its readiness to share its power and privileges.

Which poses a problem. Now 76 and in poor health, President Chiang is unlikely to be a candidate for re-election when his current term of office expires in 1990. He has therefore given the matter of his successor some thought. At the end of last year he promised that no member of the Chiang family would follow him as president. He also dispatched to Singapore as a trade official the man who is the likeliest contender if that promise fails to stick: the 44-year-old Chiang Hsiao-wu, the president's son by his Russian wife.

Chiang Hsiao-wu is generally reckoned

to be a bit of a lightweight. His virtual exile to Singapore is poetic justice, given his efforts to thwart the advancement of his talented illegitimate brother, Mr John Chang, who directs Taiwan's relations with the United States. So strong are the parallels between the brothers' rivalry and classical Chinese tales that a television soap opera about similar goings-on in the Ching dynasty never got the re-run many people thought it deserved.

The president has also turned his attention to the problems his successor will have to deal with. Twice this year he has urged the Kuomintang to "listen more closely to people's opinions". He has also instructed the party's central committee to examine a series of sensitive subjects—ways of dispensing with martial law, the possible formation of rival political parties, the rejuvenation of the legislature, the granting of constitutional rights to local government, even the future of the Kuomintang itself. Sceptical members of the opposition say the president is probably sincere in wanting to reorganise both central and local government; but they doubt whether martial law will be lifted or new parties tolerated.

The doubt about parties has to be qualified. It was President Chiang himself who insisted on the first official dialogue between the Kuomintang and opposition members of parliament who are elected either as independents or *dangwai*. The *dangwai* ("outside the party") now get about a quarter of the vote at election time, and the president's judgment that they have to be brought into a dialogue is a signal that they are a party, or group of parties, in all but name. The various factions of the *dangwai* have been invited to set up branch offices, albeit as "research associations", a designation they strongly resent.

In May, the president wrong-footed the *dangwai* and stunned conservatives in his own party with his decision to let Taiwan's national airline negotiate face-to-face with Chinese airline officials for the return of a diverted Boeing 747 and two members of its crew. This worried the

dangwai, who live in fear that the aging mainlanders at the top of the Kuomintang may one day be tempted into some sentimental reconciliation with the Communists in Peking. It seemed to fit into a pattern. The president has decided that Taiwan should stay on as a member of the Asian Development Bank, even after China has joined. The island is also sending its women's basketball team to Moscow next month. This will be the first time a sports team from Taiwan has competed in a communist country.

President Chiang is just as good at keeping people guessing about the succession. He has elevated Vice-President Lee Teng-hui—a native Taiwanese with no real power base but a naughty streak



The Chiang where it all began

of liberalism—a few notches up the party ladder. This appeals to foreign diplomats, who admire Mr Lee for his degrees from two American universities, Iowa State and Cornell, and his golf handicap. But the president has also appointed his younger brother, General Chiang We-kuo, as head of Taiwan's national security council, snubbing two other powerful military men in the process.

General Chiang is immensely popular with the armed forces, as much for his reputation as a womaniser and joke-teller as for his martial qualities. He can make of his new job whatever he chooses, although he is not thought to be an ambitious man. His appointment may be the president's sop to Chiang-dynasty

loyalists, and an attempt to protect Mr Lee from their jealousy. But if Chiang's blood does prove the thicker after all, it may be the exile in Singapore, Hsiao-wu, who is the ultimate beneficiary.

China

How do you say Locke in Chinese?

FROM OUR CHINA CORRESPONDENT

China's economic experiment was bound, sooner or later, to bring some political changes in its wake. It seems to be sooner. The public debate about political reform that has suddenly broken out in China's newspapers and in academic circles has already touched on a sensitive nerve. Nobody has come close to questioning the authority of the Communist party—that is a condition of the debate being allowed to take place at all. But the buzz over political reform will make people think about the party's traditional role as the guide and overseer of everything that matters in the running of China.

China's chief reformer, Mr Deng Xiaoping, has been talking of separating the functions of the party from those of the government since at least 1980. In a speech then he attacked the concentration of power in the hands of the few, nepotism, bureaucracy and the practice of giving party members jobs for life. His economic reforms have already cost many party officials their jobs in industry. Party hacks may now face the same sort of challenge in government: some are being replaced by better-trained civil servants.

Mr Deng's new party propaganda chief, Mr Zhu Houze, told a party conference recently that political change must come quickly. According to a member of the party's influential central-committee secretariat, this means reforming the spoils system for party bureaucrats, sprucing up China's legal administration and putting some distance between party and government. In an effort to stamp out abuses of party privileges, the government is likely to introduce new regulations governing the rights and duties and the hiring and firing of officials.

The separation of government and party responsibilities would make it harder for one person to get absolute control over the country. The reformers still shudder over the disasters that befell China when Mao Zedong and, in his later years, his wife Jiang Qing, managed to do this. The decision after the Communist takeover in 1949 to make state power and party power more or less the same thing helped make Mao's personality cult possible.

Mr Hu Qili, the man expected to succeed Mr Hu Yaobang as chairman of the Communist party, now makes a point of linking references to the party's leadership with a new phrase that means more than it sounds like: "the people's democratic supervision." It reflects curiosity among Mr Deng's supporters about the checks and balances built into the pluralist systems of the West. Scholars in Peking are quietly looking into some curious western habits: the role of parties, and the divisions of power between federal and local authorities and parliament and the judiciary. They may even think of applying some of their learning to the running of Hongkong after China takes it over in 1997.

The party's musings are due to continue as preparations are made for the thirteenth Communist party congress in Peking in September 1987. Some officials and scholars reportedly want to take a sympathetic look at the role of the civil service in pre-revolutionary China. Others are mugging up on Thomas Jefferson and Edmund Burke. The search for what Mr Zhu calls "political science with Chinese characteristics" is on.

Japan

Throne of Blood, Part 2

FROM OUR TOKYO CORRESPONDENT

Only one minister was left in his former post after the sweeping changes announced on July 21st and 22nd in Japan's government and at the top of the ruling Liberal Democratic party. Mr Yasuhiro Nakasone, the prime minister, went as far as he could to secure his power base and

divide his opponents. The prime minister will keep his job, though for how much longer has been left vague. He has also shown that, when the time comes, he intends to choose his successor. The ailing Mr Kakuei Tanaka is no longer the party's unchallenged kingmaker.

Mr Nakasone's first objective was to stay in office beyond October, when his second two-year term ends and party rules require him to stand down. Even the landslide victory he led the party to on July 6th was not enough to convince it to agree formally to a third term. His rivals have conceded only that he may carry on "until pending problems are resolved."

The new cabinet reflects the strengths of the ruling party's factions. Eight places (a gain of two) went to the Tanaka faction; five, including his own job, to Mr Nakasone's (a gain of one); three (a loss of one each) to the former Fukuda faction, now led by Mr Shintaro Abe, and the Suzuki faction, whose leadership may soon pass to Mr Kiichi Miyazawa; and one to the Komoto faction.

Of the three main contenders for Mr Nakasone's job, Mr Noburu Takeshita, who was finance minister, and Mr Abe, formerly the foreign minister, have been transferred to top party jobs. Free of ministerial duties, they can concentrate on the succession race. Mr Takeshita now becomes the Liberal Democrats' secretary-general, thus probably edging ahead of Mr Abe, who will be chairman of the party's executive council. Mr Abe replaces Mr Miyazawa, who becomes finance minister and thereby loses influence within the party.

Mr Nakasone wanted the 71-year-old Mr Shin Kanemaru to stay on as secretary-general—a post which, when held by a somewhat younger man, is seen as a stepping stone to the prime ministership.



Nakasone keeps his place in Tokyo musical chairs

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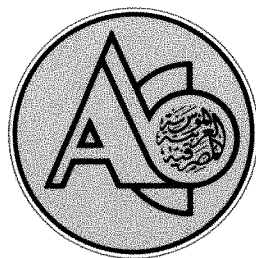


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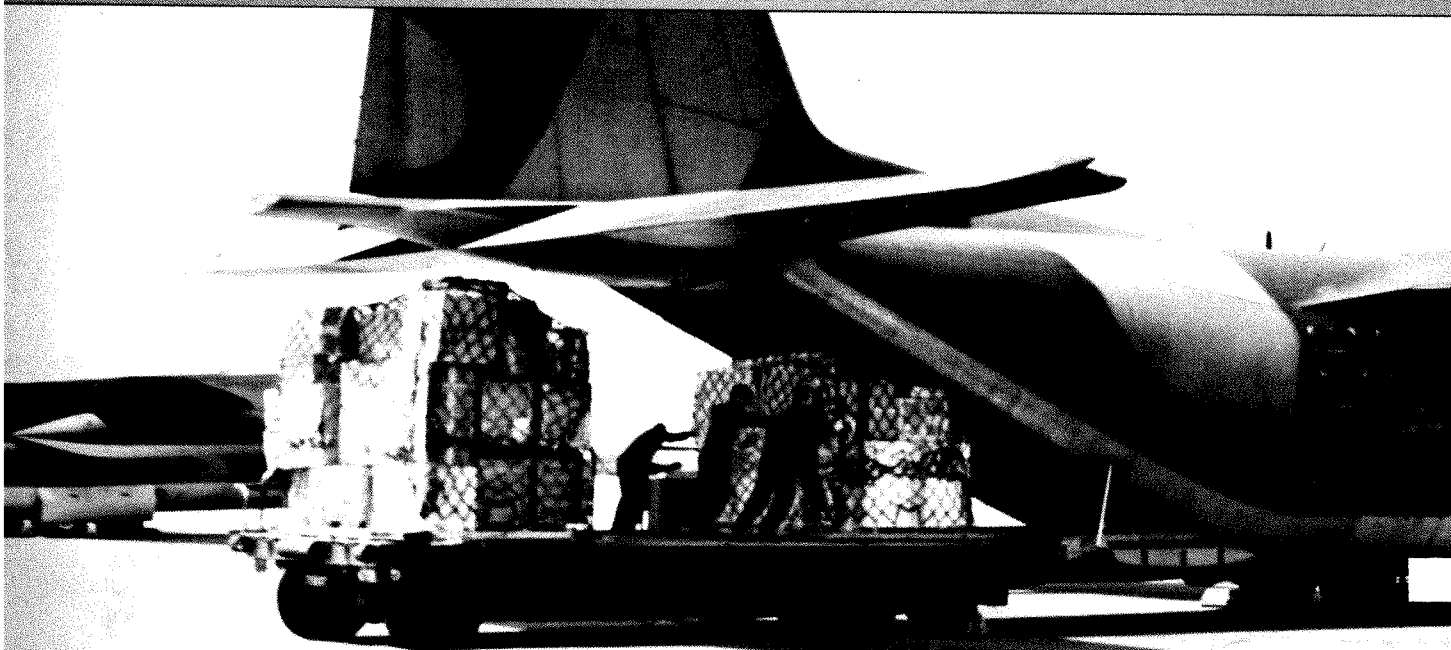
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A rude awakening

FROM OUR TOKYO CORRESPONDENT

While Mr Yasuhiro Nakasone was busy jostling the rival factions of Japan's Liberal Democratic party into a new government this week, the Japan Socialist party was facing the consequences of its crushing defeat on July 6th. With only 85 seats in the lower house—down from 112 in the previous Diet, and a smaller contingent than the Liberals Democrats' Tanaka faction alone now commands—the country's main opposition party has fallen below 100 seats for the first time since 1969. Back in 1955 it had 154 seats. This is not just a matter of private grief. Japan needs a healthy opposition to the Liberal Democrats, who have been in power continuously since 1955.

The Socialists have declined along with their main backers, the trade unions, which have been losing strength as Japan's economy becomes less dominated by heavy industry. Union membership fell from 34.5% of Japan's workforce in 1970 to 28.9% last year. The union movement is itself divided. The General Council of Trade Unions of Japan represents 35% of unionised labour and supports the Socialists. The more moderate Japanese Confederation of Labour, representing 17% of unionists, supports the Democratic Socialist party.

What is worse for the General Council, 60% of its members work in the public sector (compared with 7% of the Confederation of Labour's members). Mr Nakasone's privatisation programme has already hit it hard. It will be hurt

more when the state-owned Japan National Railways is split up and sold off. The National Railway Workers' Union, which has been campaigning strongly against privatisation, has lost 10,000 members over the past three months to more moderate unions. The other big railway union, the Locomotive Engineers' Union, last week walked out of the General Council in protest against its rival's hard line.

This is all the more dismal for Mr



Ishibashi bashed

Masashi Ishibashi, the Socialists' chairman, because he had worked hard to wean his party and the General Council away from their Marxist yearnings. The voters were not impressed. The Liberal Democrats looked the party of reform: Mr Nakasone, not Mr Ishibashi, the leader to bring it about.

The voters have changed too, and the Liberal Democrats, like conservative parties in America and Europe, have benefited from the preoccupations of a more prosperous generation. Even in hostile Tokyo, where the turn-out was low (which should have hurt the Liberal Democrats), the party gained five seats and won a best-ever total of 19. The pacifism, neutralism and vaguely anti-consumerist instincts of the Socialists seem musty and irrelevant to most city people, whose worries tend to be taxes and high food prices.

Some of the Socialist party's thinkers want it to distance itself a bit from the unions and to become more of a social democratic party that could bring in all the left-of-centre opposition groups. At the party's convention on July 28th, Mr Ishibashi is expected to repeat his call for the Socialists, the Democratic Socialists and the centrist Komei party to form a parliamentary alliance, and to agree on a common policy for the next general election. He also wants the labour unions to unite.

It is a tall order. The left-wing parties differ over defence, relations with America, and nuclear power. The election has been a shock for the Socialists. Enough of a shock to propel them into the future?

That might have blocked Mr Abe and Mr Takeshita, who are both 62. But Mr Kanemaru, a senior member of the Tanaka faction, insisted on stepping down. His move stymied Mr Abe and put Mr Takeshita (whose daughter married his son) into the top party job. Mr Kanemaru, as deputy prime minister, will be expected to keep Mr Takeshita and Mr Abe in line.

The "new leaders" differ about how long Mr Nakasone will need to resolve those pending problems: privatising Japan National Railways, in particular, though there are also tax, welfare and education reforms and a supplementary budget to be considered. Mr Takeshita needs time to win the Tanaka faction's leadership, and would readily let Mr Nakasone stay on for a whole year. Mr Abe, unwilling to grant Mr Takeshita time, contends that only the railway privatisation really matters. This could be put through by the end of 1986.

The cabinet bears Mr Nakasone's imprint, which may be an augury of his kingmaking powers. The new transport minister, who will handle the railway legislation, is Mr Ryutaro Hashimoto, at

48 one of the party's rising stars. He is a member of the Tanaka faction but was the prime minister's personal choice. The only minister to retain his job, Mr Masaharu Gotoda, is also in the Tanaka faction but is a close ally of Mr Nakasone. The new foreign minister, Mr Tadashi Kuranari, is another trusted aide of his.

By taking on Mr Miyazawa as finance minister, the prime minister stands to gain in several ways. Mr Miyazawa's criticism of the government's austere budgetary policy will be stilled, and foreigners are meant to see his appointment as a sign of the government's intention to stimulate domestic demand. Mr Miyazawa's ministerial duties will restrain his campaign for Mr Nakasone's job. He will be further hampered by the appointment of his factional opponent, Mr Masayoshi Ito, to the third of the senior party jobs, chairman of the policy research council.

Mr Susumu Nikaido, now the Tanaka faction's leader, rejected several offered positions because he wants to concentrate on blocking Mr Takeshita's efforts to take over the faction. Mr Michio Watanabe,

who used to run MITI, is also out of a job. He belongs to Mr Nakasone's faction, which for obvious reasons has not yet produced a "new leader". The free-speaking Mr Watanabe, who, like Mr Abe and Mr Takeshita, is 62 and thus six years younger than the prime minister, wants to fill that role.

Bolivia

The ones that got away

An American-Bolivian campaign against drug-traffickers in Bolivia started on July 14th, and promptly proved how hard a job it has. Bolivia is an ideal place for drug-peddlers. The writ of the cash-starved government barely extends outside the towns. Underpaid policemen are open to persuasion by traffickers whose annual turnover is around \$600m. And coca leaves are traditionally chewed by Bolivians to allay hunger or pain.

On July 13th, the 50-odd men working

Keeping count of terror

FROM OUR SPECIAL CORRESPONDENT IN WASHINGTON

Three months after the bombing of Libya, the temptation is growing to call it a success. Was it?

So far, almost certainly. European opposition to the American action has faded into silence. Colonel Qaddafi looks groggy. He has not, directly or indirectly, done much noticeable punching back, despite a small flurry of retaliatory brutalities by some of his Middle East admirers in the immediate aftermath of the bombing. The Russians keep him at arm's length. His fellow-Arabs have lifted neither a finger to help him nor an arm to comfort him. And the West Europeans have begun to tighten up their security and reduce their economic and diplomatic ties with Libya. The American raid did not provoke the instant dire reaction so widely predicted in Western Europe.

None of which means that international terrorism has been defeated. A breakdown of terror-related deaths and incidents shows a steady hum of terrorist activity. In the world as a whole, the rate of anti-American terrorism looks like being little different from last year, which produced the highest number of lethal anti-American attacks for many years. In 1985, about a third of the 28 Americans killed by terrorists lost their lives in Middle East-related incidents. This year the numbers could be much the same, perhaps tailing off after April.

There have been some 18 anti-American terrorist incidents in Western Europe and the Middle East in the three months since the Libyan raid, compared with about 15 during the 3½ months before it. Not all the post-April-15th actions were connected to the raid, nor have many Americans actually been killed in them.

According to Mr Robert Oakley, the Reagan administration's chief counter-terrorist and terrorist-counter, the number of anti-American incidents as a proportion of worldwide terrorist actions has fallen over the past three years from

40% of the total to 25%. Purely national terrorism committed by the likes of the Irish Republican Army and the Basques' ETA is far more widespread than anti-American terror. The world total of terrorist incidents, according to American officials, has gone steadily up in the past four years, from an average of 500 a



Gunning for terrorists

year in 1979-83 to 600 in 1984 and 800 last year. That figure does not include attacks by Afghan rebels, Nicaraguan contras or Angola's anti-government UNITA guerrillas.

The Middle East is not, anyway, the worst part of the world for Americans. The number of Latin American-related acts of terrorism in which Americans have been killed over the past five years is, on average, 40% higher than the

number of Middle East-related acts. In 1985 there were some 86 terrorist acts in Latin America involving United States citizens, compared with 16 similar incidents in the Middle East. Contrary to popular American belief, relatively little Middle East terrorism is directed against Americans.

Colonel Qaddafi helps some of the nastiest terrorist groups in the world, but the number of American and West European deaths that can be directly attributed to him is pretty small. By far the largest number of Colonel Qaddafi's victims are fellow-Libyans ("stray dogs"). By far the largest number of all Middle East terrorist victims (those who get killed in Europe through some Middle East connection as well as those who die in Arab countries) are Arabs killed by other Arabs. Of 75 Arab attacks in Western Europe last year, 62% were aimed at fellow-Arabs, 17% at Israeli or Jewish targets, 16% at European ones, and only 5% at Americans.

Terrorism in Europe, according to the American statistics, accounted for a fifth of all terrorist deaths last year. Europe's own groups (the IRA and ETA being by far the highest scorers) killed 118 people. Middle Easterners working in Western Europe killed 65, not counting the victims of the Egyptian airliner hijacked to Malta last autumn. Of the Arab killers, Abu Nidal and Ahmed Jibril, both outcasts from the Palestine Liberation Organisation, were responsible for two-thirds of the victims.

The worst place in the world for terrorism is undoubtedly Beirut, where killings are so frequent that the statisticians have no hope of keeping pace. The most cynical manipulator of terrorist groups has almost certainly been President Assad of Syria, the chief protector of Abu Nidal, whose main targets have been Jordanians and members of Yasser Arafat's wing of the PLO. President Reagan preferred to make Colonel Qaddafi his target in April, and the thump he gave the colonel seems to have given him pause. No bad thing, if the pause lasts. Whether it will make other terrorist-organisers hesitate remains unproven.

in the cocaine laboratory in El Zorro, hidden under towering trees about 200 miles north-west of Trinidad in the remote north of Bolivia, packed up and flew out from their 700-yard landing strip. The next day, an American C4A transport aircraft arrived at Trinidad and disgorged six Black Hawk helicopters and 160 pilots, gunners and maintenance men. On July 15th, the helicopters flew into empty El Zorro.

Bolivian anti-narcotics policemen, known as Leopards, and an adviser from the United States Drug Enforcement Administration found two big Brazilian generators supplying shacks where coca paste

had been filtered, purified with ether and acetone, and dried into crystals. But they found no cocaine. Local peasants told them what had happened. The next day, the helicopter-borne police raided two cattle ranches suspected of housing laboratories and found them to be cattle ranches. There followed a lull and talk of the need for better information.

The Bolivians and Americans cannot do much. Coca-growing will continue until the unlikely discovery of a more profitable alternative crop for the peasants. The government refuses to eradicate coca. Nobody doubts that the men who flew their manufacturing operation

out of El Zorro will resume elsewhere in the forest, and probably have done so already.

Bolivia was pushed into accepting American help by a threat to cut off \$7.4m in economic aid on the ground that its anti-drug campaign was inadequate. The hard-left union federation inveighed predictably against "a disguised American invasion", and at least one senior official found the American presence politically embarrassing. The interior minister, Mr Fernando Bathelemy, found a silver lining. "The disappearance of the traffickers is a success in itself," he said, "even if they got away."

Malaysia

Mosque power

FROM OUR SPECIAL CORRESPONDENT IN KUALA LUMPUR

His electoral prospects do not look great right now, but Malaysia's prime minister, Dr Mahathir Mohamad, has called an election for August 2nd and 3rd anyway. He is unlikely to hold on to the four-fifths majority his National Front coalition has had since 1974. But he must face the polls by April 1987, and the longer he waits, the gloomier his outlook is likely to get. His party, the United Malays National Organisation (UMNO), is the biggest in the ruling multi-racial National Front coalition, but it is split. Financial scandals have grubbied the government's look. Opposition from the Muslim fundamentalists' Islam party is getting stronger.

By holding an early election, Dr Mahathir hopes to minimise the threat posed by Mr Musa Hitam, the deputy president of UMNO, who recently resigned as deputy prime minister after a quarrel with him. Mr Musa is a popular man, whose courteous manner compares favourably with Dr Mahathir's high-handed bluntness. His following is growing, and the prime minister wanted a vote before Mr Musa becomes a serious rival. Dr Mahathir also scheduled the polls to precede the financial-fraud trial of Mr Tan Koon Swan, president of the Malaysian Chinese Association, the second biggest party in the ruling coalition.

Conveniently, the election will coincide with a period when a lot of the active campaigners for the Islam party will be on their pilgrimage to Mecca. The rise of fundamentalist Islam, particularly in the urban areas of northern Malaysia, has

swung opinion towards the Islam party, which is now Dr Mahathir's most dangerous opponent. It is likely to perform well in his home state of Kedah and could win the state elections in oil-rich Terengganu and Kelantan.

The Islam party has been trying to put together a united opposition front. It wooed Chinese voters by promising to scrap the New Economic Policy which discriminates in favour of ethnic Malays in education and business. It is not having much luck: the Chinese are understandably reluctant to go along with a party that wants to create an Islamic state.

Dr Mahathir has improved his odds by getting the Muslim members of his coalition to accept the Christian-dominated United Sabah party as a partner. In April 1985, this party won the state election in Sabah, throwing out the National Front. The victory triggered a series of bombings and arson attacks by Muslims. But since the Christians won hands down again in May this year, the National Front Muslims saw the point of an alliance.

The National Front's new partner should ensure victory in Sabah, and Malaysia has a first-past-the-post electoral system which will help the ruling coalition. Even so, the National Front may lose 25 or so of the 132 parliamentary seats it won in the last election in 1982.

The government's attack on the Islam party has concentrated on hinting that a vote for the opposition is a vote for sectarianism. Since the election was announced, mock riots have been staged in central Kuala Lumpur to demonstrate the police's ability to control mobs. Some Malaysians saw it as a gentle reminder of the racial riots of the 1960s, and a message that a vote for the National Front is a vote for order and harmony.

Nicaragua

The cross gets hammered

FROM OUR SPECIAL CORRESPONDENT IN MANAGUA

The Sandinist government of Nicaragua has settled two domestic scores since the United States House of Representatives voted last month to reopen the taps of military aid to the contra rebels. First it closed the newspaper *La Prensa*. Then it struck at the Catholic church. Bishop Pablo Antonio Vega, vice-president of the Nicaraguan bishops' conference, was accused of contra sympathies and deported to Honduras after he hinted that the Sandinists' reliance on Russia justified American intervention.

The country's conservative-leaning bishops have been on poor terms with the government since 1980, when it began a "literary crusade" that the bishops thought subverted Christian values. They later encouraged young men to try to avoid conscription, on the ground that the army was not a truly national force but an adjunct of the Sandinist party which indoctrinated its recruits. The Sandinist party has also tried to take over the charitable work of the church, and has adapted Nicaragua's rich tradition of saints and festivals to create a rival cult with its own hymns, martyrs and processions.

Some priests argue that welfare and patriotism are what Nicaragua needs, even if that means a concordat with communism. There is, they say, no necessary contradiction between Marxism and Christianity. Three such priests hold cabinet posts, in defiance of canon law, and have been suspended by the Vatican. Perhaps another 70, between a quarter and a fifth of the country's clergy, back the government. Their so-called "popular church" has fallen foul of the Pope by becoming, in the words of a Vatican spokesman, "a cog in the machinery of the Sandinist party". As a club for liberation theologians, many of them foreigners who came to Nicaragua after the revolution, the pro-Sandinist faction is accused of materialism and of neglecting the primary task of saving souls.

It is hard to tell how much influence these priests have. They have built networks of communities which combine Bible-reading with "raising consciousness". A group of Spanish Dominicans in the department of Chinandega is credited with netting the Sandinists almost 90% of the local vote in the 1984 election, compared with a national average of 63%. But the bishops have since "deauthorised" some of these groups, to discourage



The Muslims worrying Mahathir

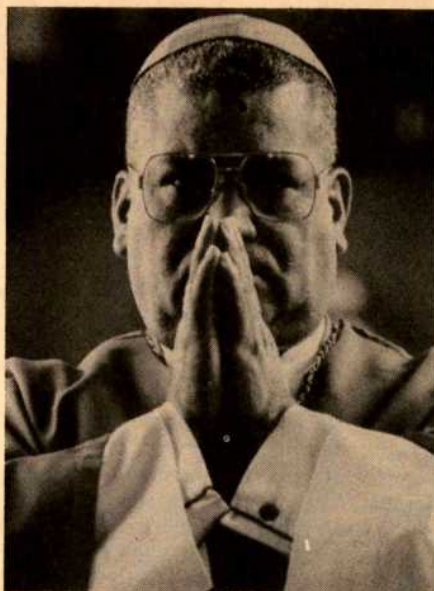
INTERNATIONAL

peasants from joining. More than 20 rebels have been removed from their dioceses and made to leave Nicaragua. Few priests now support the Sandinists as vigorously as before. Those who do have lost followers.

By contrast, the mainstream church has gained in popularity. The abuse it has got in Sandinist newspapers, and some intimidation by Sandinist mobs, have helped it, as more Nicaraguans have turned against the ruling party. Because the political opposition is so frightened, anti-Sandinist Nicaraguans have instead looked for leadership to the primate, Cardinal Obando y Bravo. The cardinal is a confident man of peasant stock. When he returned from Rome last year after his investiture, he drew crowds shouting anti-government slogans on the streets.

But the cardinal is a symbol, not a contender for power. "Our great mistake has been the failure to build an organisational base with lay participation," says one churchman. "We should have learnt from the 'popular church'." In 1984 the archdiocese of Managua belatedly set up a commission, known as Coprosa, to create such an organisation. Within nine months it had 63 sub-units and was about to be extended to the rest of the country. The Sandinists then closed it down.

They have since silenced Cardinal Obando y Bravo's national voice, Radio Catolica, and banned other radio stations from carrying his messages. Under the



Obando y Bravo silenced

present state of emergency he is prevented from holding open-air rallies during his pastoral visits, and must now rely on parish priests to spread the word at Mass.

The Sandinists have the church more or less under control, and are unlikely to provoke a furore by expelling the cardinal. The independent Permanent Human Rights Commission, and the body which tries to protect the private sector of the economy, are more likely to be next on the government's score-settling list.

made its dispositions. The EEC's package—the likeliest one for Britain to subscribe to if Sir Geoffrey Howe's current mission fails—would impose bans on new investment and on imports of coal, iron and steel and Krugerrands. The Commonwealth's package would add bans on food imports, air links, tourist promotion and government contracts with South African-linked companies. There is little prospect of a ban on exports to South Africa, apart from the already existing (and thoroughly circumvented) ones on arms and oil.

Numerous committees in Pretoria are examining counter-measures. Mr Fred Bell, the head of Armscor, the government corporation that now supplies roughly 90% of South Africa's arms needs, has been named to oversee sanctions-busting. He will probably be looking at four things: new capital inflows, disinvestment, the imposition of import controls and the loss of export markets.

New long-term capital has virtually ceased to flow into South Africa, though some lines are still open from West Germany and Switzerland. Trade credit is still available, and new credit lines would emerge over time through offshore financial centres. Foreign banks would shy away from further embargoes of the sort imposed on medium-term credit last year. The banks wish to do nothing to impel South Africa towards default.

If foreigners actually disposed of their South African companies, it would be seen as a mixed blessing. It would demoralise the business community; but the Afrikaner-run Nationalist government is relatively unconcerned with that predominantly English-speaking lobby. The assets might quickly be acquired by other foreigners, some operating through "fronts" in non-sanctions countries such as Israel and Taiwan. Any attempt to remove plant and machinery would certainly lead to sequestration by the government. A ban is already believed to have been placed on sales abroad of South Africa's considerable fleet of executive jets.

The more usual result would be for South African assets to go the way of foreign-owned assets elsewhere in Africa: into de facto nationalisation. Profits would be negotiated between company boards, often including public officials and soldiers, and government departments. Not good for economic efficiency, but hardly a shattering blow to the morale of ministers suddenly presented with huge industrial patronage.

One consequence of foreign firms pulling out would be an end to the Sullivan and EEC codes of labour practice. They call for integration of the workplace and fair wages for black employees. Their

SOUTH AFRICA

Is there life after sanctions?

FROM OUR SPECIAL CORRESPONDENT IN SOUTH AFRICA

"If it is expected of us to forgo essential goods which we cannot manufacture or build ourselves, let us obtain them by exploiting the self-interest of others." So said President Botha on July 17th. He was unveiling his country's new strike aircraft, the Cheetah. It is an open secret that this aircraft, a version of the old French F3 Mirage, is the product of an established arms-embargo-busting conduit from France via Israel.

The prospect of trade sanctions is now greasing many such conduits, not just between South Africa and its traditional middle-men in Israel, Taiwan and South

Korea, but most of all within Africa itself. Almost every African economy is now in a state of siege, not unlike the one that South Africa's black neighbours want to impose on it. These sieges are characterised by import restrictions, hard-currency starvation and shrinking export markets. It is ironic that policies which most African states have adopted as a means of maintaining existing regimes in power should now be advocated as a means of hastening the downfall of Pretoria's.

The South African government assumes that sanctions of some kind will be imposed in the next few months and has

Red shadow in the South

How communist is the African National Congress? Enough so to worry a lot of people—and not just those who see reds under beds—about the kind of place an ANC-ruled South Africa would be.

The ANC's 30-strong national executive, its top body, contains at least ten members of the South African Communist party, and perhaps as many as 14 or 15. The names of the executive's members, all of them in exile, are public. Apart from a few Communists who were prominent before 1950, when the party was still legal, it is hard to pinpoint which of the executive's members are also party members. With a little detective work and some deduction, however, it can be done.

The head of the ANC, the imprisoned Mr Nelson Mandela (who is not technically a member of the executive), almost certainly is not a Communist. Mr Oliver Tambo, who runs the ANC in Mr Mandela's absence, also is not. Everything about him suggests a straight-up-and-down African nationalist who would be quite happy with a non-Leninist state and a mixed economy. Circumstances and tradition might force him to be authoritarian, but by African standards his natural inclination is probably liberal.

But Communists sit in high places in the ANC. One of the top academic writers on black nationalism reckons that the ANC's secretary-general, Mr Alfred Nzo, is probably not a Communist, but that the treasurer, Mr Thomas Nkobi, very

likely is. If so, he is the highest-placed Communist in the organisation.

Mr Joe Slovo, the leading white man in the Communist party, has been (and may still be) chief of staff of the military wing of the ANC. Some people have claimed that the ANC's other top military figure, Mr Joe Modise, its military commander, is also a Communist; but he almost certainly is not.

The most prominent member of the rising ANC generation, the 43-year-old Mr Thabo Mbeki, is the son of a distinguished ANC prisoner, Mr Govan Mbeki, who joined the Communist party in 1961, a couple of years before he was locked up. Some say the son must be a chip off the Soviet block ("he owes everything to them"). But he is a pragmatist and lacks the ideological single-mindedness of the Marxist old guard.

The South African Communist party is an orthodox pro-Russian party: it backed the Soviet invasions of Czechoslovakia and Afghanistan. Its finances are sound and it exercises a guiding hand over the flow of arms to the ANC. The party was originally for whites only—during the miners' strike of 1922 Communists chanted the remarkable slogan "Workers of the world unite for a white South Africa"—but soon became fearlessly multiracial. It has impressed black activists with its courage and discipline.

Several things, however, suggest that Communist influence on the ANC may be limited. First, atheistic egalitarianism is

unattractive to most blacks, even in gravely unequal South Africa. Second, a large number of the most committed Communists are whites, Indians and mixed-race people, many of them intellectuals, whom ordinary blacks regard with instinctive caution.

Third, the ANC itself is by no means Communist. Its Freedom Charter is a vaguely socialist document that liberal whites could easily swallow. The churches, and churchmen like Bishop Desmond Tutu, are nearly all sympathetic to the ANC. The organisation has always been an open house—which is why it decided, back in the mid-1950s, to let Communists in.

None of which answers the big question. The experience of the communist parts of the world suggests that if Communists control a third of a national-front movement, they are in a position to take it over when the time is ripe. South Africa's Communists are easily that well represented on the ANC's executive. It is a fair bet that the rank-and-file of the ANC is far less Communist than the executive. But what about the layer just below the top? Observers reckon that the Communists are not as well placed there as on the executive, but outsiders do not really know.

If apartheid went, it is likely that there would be a punch-up between the liberals in the ANC and the Communists. If numbers were all, the liberals should win. But the longer the struggle drags on, the more the Communist party's conspiratorial discipline will count, and the better will be its chances.

impact on wage costs has probably been marginal, but the ending of such monitoring would also marginally depress earnings. Coupled with the rapid collapse of influx control (because of the ending of the pass laws) and white job reservation, labour unit costs could fall fast. This, combined with a further decline in the value of the rand, would do much to uphold South Africa's international competitiveness.

Where sanctions might bite

Competitiveness is central to the question of trade sanctions. The rand is now worth 40 cents—half of its value at the start of 1984. This has made imports much more expensive and has fuelled inflation, which is now running at an annual rate of 17%. But, thanks mainly to gold exports, South Africa ought to run a current-account surplus of perhaps \$3.5 billion this year. The chief impact of sanctions would probably not be on the current account as such, but on certain important industries.

Apart from the luxury goods that make life sweeter in South Africa than anywhere else on the continent (for those who can afford them), South Africa's

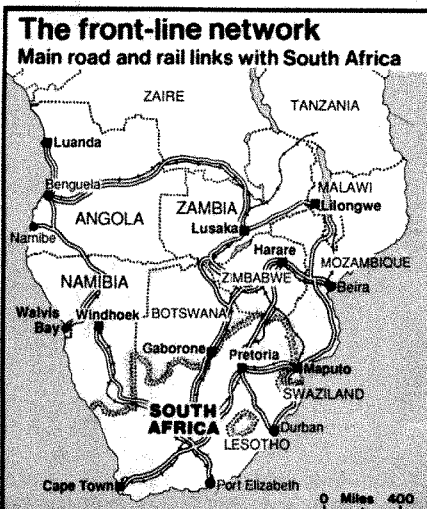
main import needs are for capital goods such as machine tools and semi-manufactures, and for high-tech products such as computers. Trade experts are convinced that an embargo on imports of any of these would be fairly easy to break.

The world's machine-tool and computer industries are in a slump. Foreign computer companies have already been

accused in South Africa of unloading obsolescent machines on black schools. Johannesburg hotels are littered with Japanese salesmen waiting for the Europeans and Americans to leave the field to them. Japanese companies already circumvent their country's ban on direct investment with franchise and licensing deals; and most cars now sold in South Africa are Japanese. The prospect of handing the southern African market scot-free to their East Asian competitors would be more than European exporters could bear.

South Africa is in any event a world leader at evading foreign bans. It may already be negotiating false-documentation arrangements with intermediaries in front-line states. Mining equipment destined for, say, Zambia would anyway have to pass through South African ports; the consignments need never see Lusaka before being diverted to the production lines of the Transvaal.

Nobody seriously supposes that a blockade could be imposed on South Africa's entire coastline. Even if it could, the country's greatest needs—high-tech, low-volume capital goods—could come in



INTERNATIONAL

by air. The goods could pass through neighbouring states such as Botswana and Swaziland if need be: South Africa is already planning new airfields in both states in the event of a ban on air links.

The fate of South Africa's exports, particularly of minerals and foodstuffs, is harder to predict. It is fortunate in the wide spread of its customers: the biggest, America, took only 15% of South Africa's exports in 1984. Short of a decision by the West's central bankers to drive down the gold price, gold and precious mineral exports seem secure.

However, the EEC's suggested embargo on coal and steel imports—a convenient choice for Europrotectionists—could bite. Exports of metal ores and scrap, 60% of which went to Britain in 1985, would be hit by a total export ban. Coal might be South Africa's greatest weakness. It is a big export earner, and almost 60% of coal exports went to Europe in 1985. Coal prices are already weakening because of competition from falling-price oil, and South Africa might find it hard to increase its coal sales outside Europe against the competition of exporters such as Australia. The coal mines last week said they might have to lay off workers in anticipation of falling sales.

The seasonal fruit trade could also be vulnerable, but South African fruit is selling well on world markets and would probably find outlets without difficulty. Most citrus now comes out through Maputo, and a boom in "Swazi" oranges is predicted. Maize and other foodstuffs are bulkier cargoes, but go mostly to East Asia and elsewhere in Africa. Neither destination has been fastidious about sanctions-busting in the past.

At the front

The difficulty confronting any sanctions enforcement is that the frontline states—Botswana, Zambia, Zimbabwe, Malawi, Mozambique, Swaziland, Lesotho—are not so much a leak in the dam as an unpluggable gap (see map on previous page). Under sanctions, black African corrupt cabinet ministers and their friends in state-backed import-export agencies would enjoy a lucrative trade in trans-shipment commissions. Sanctions could indeed relieve the hard-currency problems of Zambia and Zimbabwe—two countries with "end-user plausibility"; this could make up for the much-vaunted adverse impact of possible South African retaliation on them.

Swaziland is well-placed, Pretoria wits suggest, to become the Liechtenstein of southern Africa. Swazi officials were in Pretoria this month discussing a "development" project. Maputo, the shambolic capital of Mozambique, would see an upsurge in business, since its bills of

lading will seem more acceptable than, say, Durban's. Maputo is now little more than a South African port and would play a useful role in sanctions-busting.

In the pre-sanctions period there has been talk of South African retaliation against front-line states. But the South African government knows that threatening retaliatory action against migrant workers' remittances would be a pointless gesture. It would infuriate mining and manufacturing business whom the government will want to keep happy. Denying Zambia and Zimbabwe railway wagons would also be self-defeating. Continuing transport flows will help confuse the policing of sanctions and can be bartered for sanctions-busting assistance.

The effect of any new western aid for front-line states is unclear. The aid that now flows to the black countries belonging to the Southern African Development and Co-ordination Conference (SADCC) tends to benefit the South African economy. So would any new help given after the imposition of sanctions, for the same reason: capital and other projects tend to be sub-contracted to the Transvaal. Sanctions might thus cement South Africa's black neighbours even closer to its economy than they are now.

Other consequences of subjecting South Africa to economic siege might, again ironically, be to break some international cartels. Its adherence to various copyright and patent conventions would be at risk, with implications for the pirating of computer software and drugs. South Africa could leave IATA and operate South African Airways as a cut-price carrier between sanctions-free ports of entry. It could hand its 747s over to Air Botswana or Royal Swazi or Lesotho

airways to do the same. One lesson of Rhodesian sanctions was that corrupt dictatorships, especially in Africa and the Middle East, feel little obligation to adhere to them.

On the inside

The internal consequences of sanctions are the hardest to quantify. The likelihood of leaks is so great, and the record of past sanctions so poor, that few observers in South Africa are prepared to guess at any numbers. A recent report from the South African Bureau of Market Research calculated that one million people would be thrown out of work by "total sanctions". Yet the calculation assumed a wholly effective trade embargo and no import-substitution effects.

South African employment statistics, like those in any mostly-third-world country, are hardly worth collecting. Those that exist suggest unemployment is 2-4m out of a workforce of 12m. Sanctions would come at the same time as a possibly traumatic urban migration following this year's ending of influx control. Johannesburg's population density is at present roughly 12 per hectare, compared with London's 16, Mexico City's 65 and Cairo's 74. With starvation afflicting Mozambique and miserable poverty in the other front-line states, the drift to the great cities of South Africa seems likely to become a torrent.

This, coupled with the collapse of group-areas apartheid in the coming two or three years, is likely to rock southern Africa's economy. The effect of sanctions—the extension to South Africa of the sort of semi-siege experienced in many other African states—would by comparison cause hardly a tremor.



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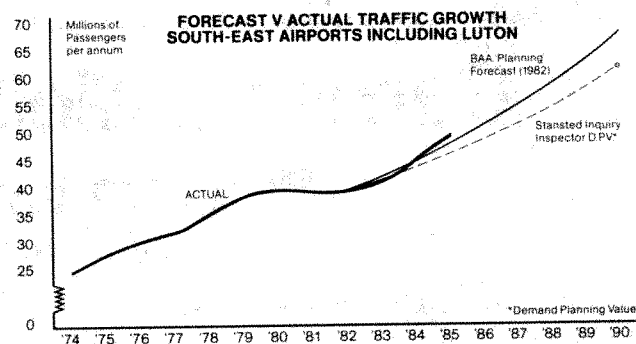
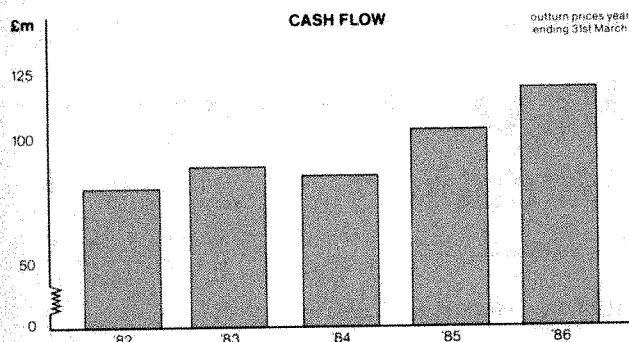
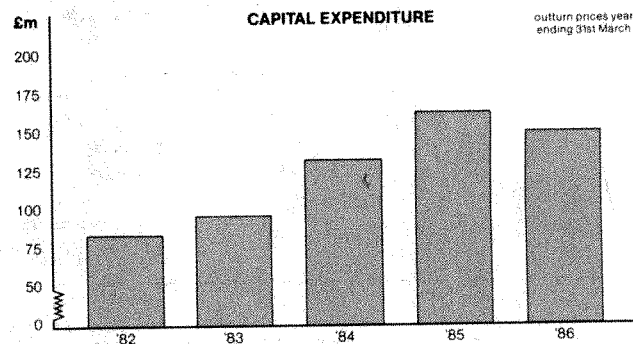
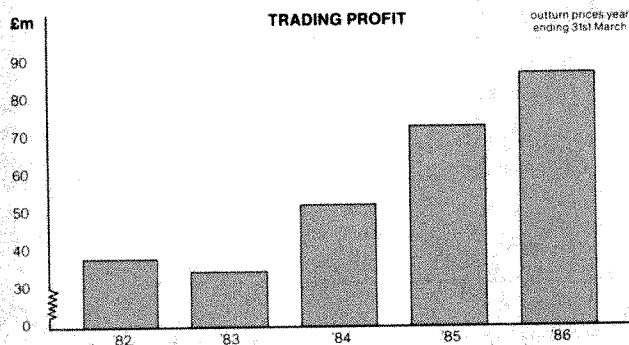
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Further Information

Please contact: Robert Dalton, Associate Dean/Director of Executive Education, Graduate School of Industrial Administration, Carnegie Mellon University, Pittsburgh, PA 15213. Telephone (412) 268-2304. Telex 469002.

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Statement by the Chairman, Sir Norman Payne, CBE, FEng.

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Capital expenditure	£151m	£161m	(7.0)
Return on average net assets	7.5%	6.9%	8.7
Overseas income	£89m	£84m	5.7

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EUROPE

Bin ich ein Berliner?

FROM OUR BONN CORRESPONDENT



Queueing for freedom

Will asylum-seeking refugees from Asia and Africa make West Germany change its constitution? Some conservative politicians believe it is high time to tighten up Article 16 of the country's Basic Law, which states baldly: "Persons persecuted on political grounds shall enjoy the right of asylum." The cause of their concern is a flood of African and Asian refugees who have been using the freedom of transit from East to West Berlin to enter West Germany. In the first half of this year, 42,000 people entered West Germany to seek asylum, about 60% of them through Berlin. Officials reckon the figure could reach 100,000 by the end of the year, compared with 74,000 in 1985 and 35,000 in 1984.

The interior minister, Mr Friedrich Zimmermann, announced in Bonn on July 23rd that the federal government and the West German states would discuss how to deal with the influx of refugees, but not until September. Mr Zimmermann is a member of the ruling conservative party in Bavaria, where an election for the state parliament will be held in October. The refugee issue is likely to figure prominently in the campaign.

The cost to the federal government of supporting the refugees, who live in camps while their cases are processed, is already running in the region of DM1 billion (\$460m) a year. The West Berlin authorities complain that the city's resources are being stretched to breaking-point. During one weekend in mid-July, 600 refugees crossed from the communist eastern half of the city to West Berlin. Emergency accommodation centres in the city have been overcrowded for months. Elsewhere in West Germany, fights have broken out between Africans and Asians at refugee centres in Rhineland-Palatinate and in Bavaria, where a Ghanaian died earlier this month after a fight between groups of asylum-seekers.

Once the refugees have arrived in West Germany, they are protected by the constitution and can usually count on a stay of several years, whatever happens to their requests for permanent residence. This is because of the time it takes to deal with their applications. Delays have increased as the number of refugees crowding into the country has risen. Conservative states in prosperous southern Germany grumble that they receive more

than their fair share. Mr Franz Josef Strauss, the premier of Bavaria, says the only effective way of halting the flow of refugees is to change the constitution. But the real difficulty is Berlin: the key to a quick solution lies with the East Germans, not with the law-makers in Bonn.

The refugee flood began last year, when thousands of Tamils from Sri Lanka flew to East Berlin and then crossed to West Berlin seeking asylum. Others soon heard about the Berlin route. After the Tamils came refugees from Pakistan, Ethiopia, Ghana and other Asian and African countries. Both the East German airline, Interflug, and the Soviet one, Aeroflot, spotted a nice opportunity to increase their earnings, and have been taking plane-loads of refugees from their home countries, or from neighbouring ones, to East Berlin. Once they arrive there, the refugees head for the crossing-points into the West. Few if any of them seem inclined to stay in East Germany, even if they could.

The West Germans, the West Berlin city authorities and the western allies—Britain, France and America, which with Russia have shared responsibility for Berlin since 1945—all refuse to recognise the dividing line between the two halves of the city as an international frontier. So the asylum-seekers can cross freely from East to West. The introduction of controls at the crossing-points would be a concession to East Germany. West Germany and the western allies shrink from this because of its implications for the city's future.

In June, the East Germans tried to introduce passport checks on diplomats crossing from East to West, but backed down in the face of western protests. Not that the western side has been entirely consistent itself this year. After the bombing in April of a West Berlin discotheque popular with American servicemen, they imposed "exceptional and provisional" checks on people crossing from the East who were thought to pose a security threat.

There's mischief in misery

So far the East Germans, apparently revelling in the West Germans' dilemma, have turned a deaf ear to pleas to slow down the number of "refugee flights" to East Berlin. This has led some West Germans to see the whole affair as a communist plot designed to put pressure

EUROPE

on Bonn and West Berlin. The conservative newspaper *Die Welt* declared that, if East Germany went on disregarding West German interests, it would face retaliation from Bonn. More diplomatically, the West German foreign minister, Mr Hans-Dietrich Genscher, raised the matter when he went to Moscow for talks with Mr Mikhail Gorbachev on July 21st.

The West Germans want to involve the Soviet Union, as one of the four powers responsible for Berlin. They hope that Mr Gorbachev will put pressure on East Germany to slow down the flow of refugees. Mr Genscher said he expected the Russians to show understanding in the matter. Maybe, but Mr Gorbachev is unlikely to intervene unless he thinks he or his East German comrades can get something in return.

If there is no movement from the communist side, pressure for a change in the constitution—to make it easier to expel asylum-seekers quickly—is likely to grow in West Germany. The opposition Social Democrats oppose such a step. The junior partner in the federal coalition, the Free Democrats, would also be worried about anything that might appear illiberal.

With a general election coming up in January, the danger is that concern about refugees could take on a whiff of xenophobia as politicians look for votes. That, in turn, would give the East Germans further cause for mischievous delight.

Haute-Garonne

Much Toulouse

FROM OUR PARIS CORRESPONDENT

What began as an unexpected bunch of by-elections in Haute-Garonne, the department of south-western France which includes Toulouse, is fast becoming a referendum on the conservative government's first months in office. Parachute on back, the Socialists' first secretary, Mr Lionel Jospin, is to be dropped from Paris to lead his party's list of candidates for the eight seats at stake on September 28th. Conservative politicians and their staffs are grasping at the last hotel reservations in Toulouse in order to defend their prime minister's record on the spot.

A loyal disciple of President Mitterrand, Mr Jospin would not have taken so bold a decision without Mr Mitterrand's blessing. There are clear risks for the Socialists. The local party, once a regional powerhouse and still the fourth largest of the Socialist federations, is bitterly split. Before the general election in March, Toulouse's official Socialists kept a breakaway Socialist from running his own list of candidates. They won four seats. But their manipulations led the Constitutional Council on July 8th to annul the result.

The Socialists hope that the arrival of Mr Jospin will distract party workers from



Jospin drops in

their local squabbles and concentrate voters' minds on Mr Jacques Chirac. As head of his list, Mr Jospin is virtually sure to win, which will mean giving up his Paris assembly seat. The question is how many Haute-Garonne Socialists Mr Jospin can pull in with him. Mr Mitterrand currently enjoys approval ratings in several opinion

Songs for Europe

The West Germans are having a small row about their national anthem. In practically every other nation in Europe people just hum along without noticing the words at all. Many would be embarrassed if they did. Consider, first, the Germans' problem, then look at what other people's would be if they took their anthems seriously.

In 1952, when Konrad Adenauer was chancellor, the West German government decided that only the third and final verse of their anthem would be sung; it blamelessly extols unity, justice and freedom. The problem with the first verse is that it begins with "*Deutschland, Deutschland, über alles*". Grammarians may say that this means something like "Above all, Germany . . ." But Hitler's Germany had no doubt that it claimed German primacy above everything, which was not at the time a fashionable idea elsewhere.

The row now arises because the south-western state of Baden-Württemberg is allowing its primary-school teachers to teach the full version. The federal interior minister, Mr Friedrich Zimmermann, thinks Germans should know, if not sing,

the whole song. The opposition Social Democrats protest. *Bild Zeitung*, the mass-circulation daily, has asked readers to write in with their opinions. During the summer silly season this should at least provide something to write about, especially since a leading French expert on West Germany, Mr Alfred Grosser, says the idea is scandalous. To this the eminent historian Mr Golo Mann (son of Thomas) responds that the *Marseillaise* is far bloodier.

The refrain of that revolutionary marching song expresses the wish that the impure blood of France's enemies should irrigate that country's furrows.



Even if it does not add to the grain mountain, the idea is not exactly *communautaire*. But can the British afford to laugh? The second verse of "God Save the Queen" goes like this:

O Lord our God, arise,
Scatter our enemies,
And make them fall;
Confound their politics,
Frustrate their knavish tricks;
On thee our hopes we fix:
God save us all.

The Irish, in response, are "impatient for the coming fight", while even the Portuguese anthem incites its citizens to "take up the guns and march".

The trouble with less macho anthems is a tendency to embarrassing geographical hyperbole. Sweden's has "I greet thee, thou loveliest land on earth" (and ends with "Oh, I would live and die in Sweden"), to which the Norwegians reply with praise of "Our land that lies rugged and storm-scarred over the ocean". The Swiss, not to be outdone in non-belligerent ruggedness, sing (in four languages): "When the Alps glow in their splendour pray, ye Swiss, your hearts surrender". And so on.

Perhaps Europeans should simply stick to the unembarrassing—if not always memorable—tunes.

L'Europe, c'est moi

FROM OUR PARIS CORRESPONDENT

The Chirac government is at last to get a minister for European affairs. The job of representing French policy in the European Community had been left empty largely because of a three-way struggle in Paris involving the president's office, the prime minister's and the foreign ministry. The fact that it has now been filled will be good news to France's European partners. The West Germans, in particular, are irritated by the difficulty of dealing with the French when both France's Socialist president and its conservative prime minister want to stamp their authority on foreign policy.

Having a junior minister for the EEC will also be a relief to Mr Jean-Bernard Raimond, France's foreign minister. He is an expert on Eastern Europe, and he finds it irksome to meet the heavy schedule of EEC council meetings. The chief beneficiary, however, will be the French claim to clarity. The Elysée keeps a close watch on European affairs through an inter-ministerial committee chaired by Mrs Elisabeth Guigou, a member of the

president's staff. But the inner circles of the finance and foreign ministries boast that she has been cut out of the real decision-making. Meanwhile the prime minister's staff, which is richly experienced in Community politics, has been battling with officials at the foreign ministry for control of European affairs.

Several candidates for the job of secretary of state for Europe either turned it down or fell victim to these struggles. The man the prime minister eventually chose is Mr Bernard Bosson, a junior minister at the interior ministry. He is unlikely to stamp out the guerrilla war among officials. But he will give France's partners a point of contact on EEC business, and take a load off Mr Raimond.

Mr Chirac was also planning at mid-week to seek the president's approval for other minor changes in his cabinet. These include the probable shifting of Mr Camille Cabana from his job of minister for privatisation, in which he has at times found himself publicly at odds with the prime minister.

polls of about 60%, well above Mr Chirac's 50% or less, but at the same time well above the standing of the president's Socialist party.

The conservatives are being led, from behind, by Mr Dominique Baudis, the personable young mayor of Toulouse. Mr Baudis likes the unconventional gesture. He was elected to the National Assembly in March but resigned his seat the next day: he disapproved, he said, of the rule allowing politicians to hold more than one office at a time and wanted to concentrate on running Toulouse. To avoid ridicule for seeking a post he spurned four months ago, Mr Baudis has placed himself eighth on the list of conservative candidates. Since the by-election will be held under the system of proportional representation used in the general election, Mr Baudis runs absolutely no risk of being elected. Yet everybody knows he is in charge of the conservatives' campaign.

In March, the conservatives ran two separate lists. The list of the Union de la Démocratie Française, led by Mr Baudis, won three seats. The list of the Rassemblement pour la République won one. For the autumn campaign, the two parties are united. This will waste fewer votes and cause the Socialists an additional problem.

Without a largish swing in the vote, the by-election is likely to produce the same four-four split as in March. But with the tiny conservative majority in the National Assembly, neither side is leaving anything to chance.

Soviet Union

Your mistake, comrades

"They'll blame it all on human error", a leading western analyst predicted a few days after the disaster at Chernobyl. By doing so, he said, the Soviet government would attempt to dismiss doubts about the design of the RBMK type of nuclear reactor used at Chernobyl, and press

ahead with Russia's nuclear-power programme as fast as possible. Sure enough, on July 19th the government commission investigating the affair reported to the Politburo that the accident happened because of "irresponsibility, negligence and lack of discipline" on the part of workers at the plant.

The explanation is neither convincing nor reassuring. From the few details of the commission's findings so far released by the Soviet media, it seems that the report traces the cause of the accident to unauthorised "experiments" carried out on the reactor's turbogenerators on the night of the disaster. Exactly what sort of experiments these were is not clear. One guess is that they may have involved keeping the reactor generating during a long-delayed maintenance period; the commission's full report is due next month and, if it is made public, may reveal more. But it is almost certainly misleading to blame the disaster simply on a bunch of irresponsible operators.

Soviet officials themselves have said that the causes were complicated. According to Mr Valery Legasov, the deputy director of the Kurchatov Atomic Energy Institute, the accident became possible because of "a combination of several events, each of them scarcely probable". Even if "experiments" did play a part, the fact that they could lead to a disaster suggests that the reactor's design was not as safe as it might have been. People, after all, are bound to make mistakes—as they did at Three Mile Island.

A lot of people seem to have made mistakes in the Chernobyl affair. Indeed, the list of sackings announced after the Politburo meeting last week is another sign that responsibility for the disaster spreads far beyond the workers at the



Tracking down the fall-out

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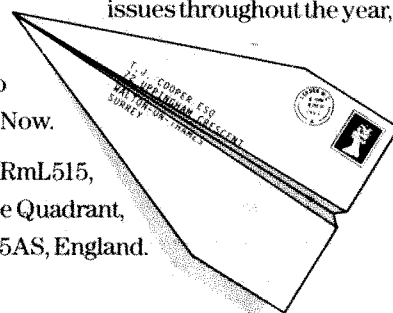
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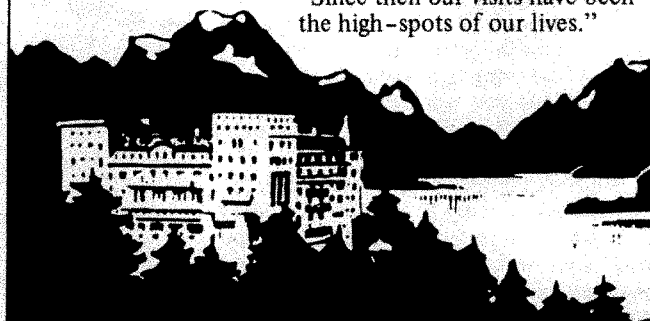
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plant itself. Among the senior officials who have lost their jobs are the head of the state committee responsible for safety in the nuclear-power industry, and deputy ministers in the power and medium-machine-building ministries; the dismissal of the deputy director of a research and design institute may be a tacit admission that more than just "human error" was involved. One of the ways Russia's leaders hope to improve the running of the

nuclear industry is to concentrate responsibility for it in a newly created ministry for nuclear energy.

Whatever the causes of the accident, the Soviet leadership is beginning to count its costs. The Politburo was told last week that "direct losses" alone—including, presumably, the clean-up operation and the lost output from the nuclear plant itself as well as from the farms and factories in the 400 contaminated square miles around it—amounted to about 2 billion roubles (\$2.8 billion at the official exchange rate). The human cost, as officially recorded so far, is 28 dead and 203 cases of radiation sickness. Some 100,000 people face resettlement.

What is to become of the Chernobyl nuclear plant itself? The leakage of radiation from the Number 4 unit, where the accident happened, is said to have "practically stopped". The reactor is now being turned into a "sarcophagus", enclosed in a huge concrete tomb. Unit Number 3, it seems, will remain shut for some time. But the other two units at Chernobyl are due to be started up again in October.

Centre stage



Search for a new Italian government, Act 2, Scene 1. Enter Mr Bettino Craxi, left, with a mandate from President Francesco Cossiga to try to succeed himself as prime minister. The story so far:

Mr Craxi resigned on June 26th after his five-party coalition lost a parliamentary vote of confidence. The Christian Democrats, who as the largest single party think they have a right to the prime minister's job, were given the first go at forming a government, through Mr Giulio Andreotti. But Mr Craxi's Socialists said no, arguing that after three successful years in charge Mr Craxi should be allowed to carry on. On July 21st Mr Andreotti told the president that his attempt to form a government had failed.

Can Mr Craxi do any better than Mr Andreotti? Probably only if he is prepared to accept a deadline for handing over his post to the Christian Democrats—something he had been reluctant to do. One suggestion is that he could agree to stay on until next spring, when the Socialist party holds its national congress. Mr Craxi could then resume active leadership of his party (a job currently delegated to Mr Claudio Martelli), allowing him to give up the prime ministership without losing too much face. By mid-week, Mr Craxi's smiles suggested a happy ending was near.

Turkey

The bosses of Byzantium

FROM OUR ANKARA CORRESPONDENT

About 2.5m Turks will vote in September in by-elections for 11 vacant parliamentary seats. This will mark a milestone in Turkey's return to full democracy. In its 1983 general election, the generals allowed only three parties to take part; this time the contest will be open to 12. But what kind of parties are they?

Most of the Turkish political parties, especially on the right, are essentially factions built around a dominant man. The ruling Motherland party, led by the prime minister, Mr Turgut Ozal, is a good example. After his 1983 election victory, Mr Ozal boasted that he had rallied under his banner elements from all the main parties of the pre-1980-coup era. But many of these recruits were simply opportunists who jumped on to the Ozal bandwagon when it began to roll. If anything should happen to Mr Ozal, the Motherland party would probably disintegrate.

Within each party the leader, always known as the chairman, is traditionally an absolute boss. Mr Suleyman Demirel and Mr Bulent Ecevit, the two former prime ministers who now complain daily about the present regime's "undemocratic" nature, used to be dictators within their own organisations. Each party boss maintains control through a bunch of cronies, invariably described as the Mafiosi. Politics has consequently become a cauldron of personal vendettas. An aggrieved politician is liable to launch a new party simply to get even with the party boss who has humiliated him.

At present the most spectacular vendetta, which could split the whole right-wing vote, is that between Mr Ozal and Mr Demirel. Their policies are barely distinguishable. Before the 1980 military coup they were close friends. The "Ozal economic programme" was, in fact, launched by Mr Demirel, in January 1980; Mr Ozal was merely given the job of supervising it. But when the generals seized power, and promptly put Mr Demirel under house arrest, they appointed Mr Ozal as deputy prime minister and supreme economic boss. Mr Demirel has never forgiven him for accepting office in



No love lost between Demirel and Ozal

Back to basics

FROM OUR SPECIAL CORRESPONDENT

NAGYMAROS

"I joined the group because I was lonely and needed friends," said a bespectacled young woman at the gathering of Catholic "basic groups" in the village church at Nagymaros, a beauty spot on the Danube north of Budapest. She and another 2,000 or so young people had come from all over Hungary to what has become a regular half-yearly get-together. Altogether, there may be as many as 4,000 "basic groups" in Hungary, each with between 10 and 30 members.

The proceedings at Nagymaros had started with prayers and hymn-singing, led by a young priest who composes religious rock. After a talk by a popular preacher from Budapest, people got up and "gave their witness", explaining how they had found God. Then more hymn-singing, before the crowd (many of whom had been watching the proceedings on video-screens outside the church) split up into groups of 15-20. After two or three hours of discussion, the conclusions were summarised at another joint meeting in the church. The meeting ended with a mass celebrated by the local archbishop.

These "basic groups" are giving a new vivacity to the Catholic church in Hungary, though the bishops regard them with varying degrees of enthusiasm. There are, however, two kinds of group. The Nagymaros meeting was one of the approved sort, those tolerated by the state.

Nothing much happened at Nagymaros to worry Hungary's communist rulers. Although the gathering was taking place near where a controversial new dam is to be built, the talk was not about the dam. The approaching 30th anniversary of the 1956 uprising went almost unmentioned. The subject for discussion was the unexplosive issue of the laity's role in the church. This year no policemen were in sight, though perhaps some

of the people with tape-recorders were police informers.

Things are tougher for "unapproved" groups such as the *Bokor* (Bush) movement led by Father György Bulanyi, a 67-year-old Piarist whose work with youth groups earned him eight years in prison in the 1950s. His 5,000 or so followers include a number of pacifists, some of whom are in prison for refusing to do their military service. The couple of dozen priests attached to the Bulanyi movement have had a hard time with the bishops, who accuse Father Bulanyi of challenging their authority, and have denounced him to the Vatican for alleged doctrinal errors. So far the Vatican has refused to condemn him.

Behind these moves Father Bulanyi's supporters see the hand of Mr Imre Miklos, the wily official who has been in charge of church-state relations for the

past two decades. To Mr Miklos the Bulanyists' pacifist leanings are only one cause for complaint. The real trouble is that they oppose the dutiful—even subservient—attitude towards the state accepted by the man who led the Catholic church in Hungary until his death on June 30th, Cardinal Laszlo Lekai.

The cardinal reluctantly gave his approval to the "basic groups" because they revived interest in the church and so helped to ease the shortage of priests (Hungary has only about 2,400 Catholic priests, half of them over 50). He persuaded Mr Miklos to extend some tolerance at least to the "good" groups. Now some younger Catholics, "goodies" as well as Bulanyists, are beginning to regret Cardinal Lekai's respectful approach to the government.

His successor is likely to be Archbishop Laszlo Paskai, an energetic 59-year-old Franciscan. The new man will find it harder to keep the church on the path of compromise and co-operation with the communist state.



Anybody want to become a priest?

those circumstances.

Then there is the legacy of the "transfer system", which reduced Turkish party politics to a farce in the pre-1980 years. Just as a professional footballer who has been denied a place in the team lets it be known that he is prepared to switch to another club, and may be duly signed up for a handsome fee, a Turkish politician who failed to get promotion or had a row with his party boss would shift to another party if he could get the right terms. These sometimes involved money, but more often the promise of future office. The most dramatic transfer occurred in December 1977, when Mr Ecevit arranged the defection of 11 members from the ruling Justice party, and thus brought down the Demirel government of that period. All the defectors were rewarded

with ministerial office.

In 1982 the generals, seeking to stamp out the transfer system, inserted into the constitution a ban on direct floor-crossing. Now, if a disgruntled politician wants to leave his party, he can only become an independent member. Many men chafe under the restriction, and there are rumours that direct transfers are being, or may soon be, revived.

In all the parties there are honourable men who deplore this. It would strengthen Turkey's case for admission to the European Community if its parties were brought closer to European norms of behaviour. For the present, the modest hope is that, after the September by-elections, the smaller factions will disappear and the pattern of parties will start to look a little more stable.

Holland

Enter Kok

FROM OUR AMSTERDAM CORRESPONDENT

Holland's Labour party is belatedly getting the sort of leadership many people think it should have had before May, when Dutch voters gave the Christian Democratic-Liberal coalition a second term in office, leaving Labour in opposition. On July 21st the popular Mr Wim Kok took over as Labour's leader. At the age of 47 he is 19 years younger than his predecessor, Mr Joop den Uyl (who had led the party for 20 years). His relaxed, businesslike manner contrasts sharply with Mr den Uyl's ideological preaching.

An economist by training, Mr Kok

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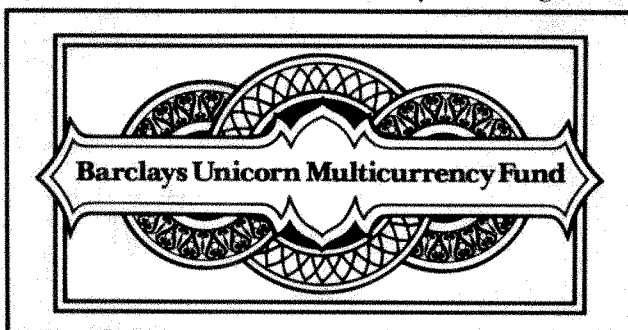
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Kok-a-hoop

made his name in the 1983 public-sector strikes. As head of the biggest labour federation, the Federatie Nederlandse Vakbeweging (FNV), he ended those strikes after six weeks with relatively little rancour despite the fact that civil servants had to accept a 3% fall in real pay. After 25 years of trade-union work he gave up the FNV leadership late last year to go into politics. Although it was once again (for the seventh time) Mr den Uyl who led Labour into the May election, it was Mr Kok who drew the voters.

Although the party achieved a modest advance, adding five seats to the 47 it held, this fell far below expectations. During its four years in opposition Labour had made halting efforts to appeal to a broader public, reaching out to employers and white-collar workers, but its efforts had clearly failed. After the election it was dealt a further blow when Mr Maurice de Hond, the prominent opinion pollster who had been called "Labour's best known millionaire", resigned from the party with a great fanfare. It was Mr den Uyl's tired policies that dismayed him, he said—although resentful party members suggested that Mr de Hond's real motive was that his election forecast had been wrong.

Mr Kok has already signalled his intention of exploiting the political shift towards the middle shown in the May voting. Small left-wing groups lost heavily and centrist parties gained, the Christian Democrats doing particularly well among first-time voters. On taking over the leadership Mr Kok declared that Labour must "open the hatches, even to social organisations and political parties that have different ideas from ours".

Until now Labour has flatly opposed

the deployment of nuclear missiles in Holland and has threatened that, if it regained office, it would cancel the commitment to accept 48 cruise missiles in 1988. But now there is growing speculation about the possibility of the party abandoning that position in the not-too-distant future; this would clear its path to participation in the next coalition government. In economic policy, no such dramatic switch would be required. The party already accepts the need for austerity to put Dutch public finances on a sounder footing, although it wants the inevitable spending cuts to be slowed.

Born near the port city of Rotterdam, Mr Kok is the son of a construction worker. He brings a more democratic atmosphere to the Labour party. Mr den Uyl had ruled it with an iron fist until the last year or two, when even he was overruled by the party chairman, Mr Max van den Berg. After the disappointing election result the ultra-hard-line Mr van den Berg also stepped down, leaving the party purged of much intransigence.

EEC: research

More do-it-yourself

FROM OUR BRUSSELS CORRESPONDENT

How much of the money the members of the EEC spend on research and development should be channelled through the EEC itself? Not as much as the European Commission wants, according to West Germany, Britain and France. These three countries have killed plans put forward by the commission and supported by some of the smaller countries to spend \$10.3 billion on Community R&D programmes in the next five years.

The outcome of last month's meeting of research ministers in Luxembourg may have disappointed the commission, but it was no surprise. The commission's pro-

posed \$10.3 billion more than doubles the amount earmarked for R&D in the present (1984-87) programme. It still thinks it can coax the Germans, British and French to go up a bit, and plans to submit a revised figure of an initial \$7 billion for the next five years, with possible additions later; but the recalcitrant three remain reluctant.

The three countries agree that Europe has to meet the technology challenge from America and Japan, but the Luxembourg meeting confirmed their reluctance to switch too much national R&D spending to Community programmes. To the case in favour of more Community co-operation—avoiding duplication of effort, fostering joint efforts between EEC firms, "showing solidarity"—the three have countered with arguments of their own:

- Community programmes, they say, should complement national R&D work not replace it. Where joint programmes are useful (as in information technology and telecommunications) the Community has a role to play.

- Shifting more resources to Brussels will give government less say in how their money is used.

- As net payers into the EEC budget, these three countries stand to benefit less from the Community's R&D projects than countries which get back from Brussels more than they pay in.

- Each believes its own industrial base is still broad enough to cover most areas of R&D within national programmes.

In short, and as usual, it is a matter of national interest. West Germany, Britain and France are convinced that their interests are best served by doing as much as they can themselves. Most other member-states calculate they are better off joining Community programmes. The three have the upper hand: even under the Community's system of majority voting, between them they can still block any proposal they do not like.

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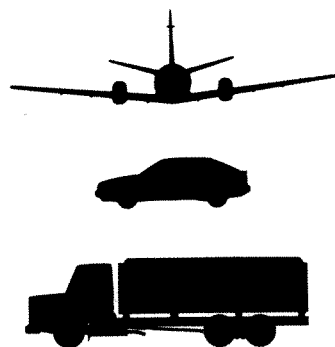
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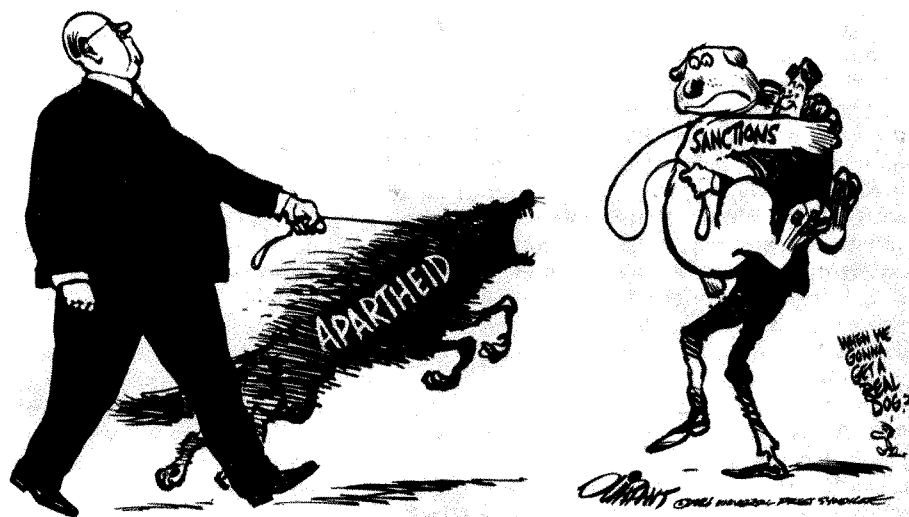


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AMERICAN SURVEY



Whatever happened to constructive engagement?

For all the fervour of his protestations that he is sticking to his old policy of jollying South Africa along rather than beating it over the head, President Reagan will probably find himself willy-nilly doing just what he says he does not want to do. He may be able to mark time for a few months, but it is a good bet that by November America will have imposed a new set of economic and other sanctions against South Africa. So why say one thing and then find yourself having to do another? And what new shape might American policy towards South Africa take?

The short answer to the first question is that, like Britain's Mrs Thatcher, Mr Reagan is dead against sanctions, but that he may have to bow to a Congress which thinks otherwise. Even Republicans in the Senate are likely to vote for additional anti-South African measures in the coming months, in numbers large enough to fend off a presidential veto.

The answer to the second, more difficult, question is that American policy is in the doldrums. The once-much-vaunted idea of "constructive engagement", that hopeful-sounding phrase coined by Mr Reagan's doggedly-hanging-on Africa man, Mr Chester Crocker, has run out of air. Though Mr Reagan did not disavow it in his speech on July 22nd, he notably

omitted to mention it by name. The administration's difficulty is that it has not yet thought up something to pump up and put in its place.

The speech said practically nothing new. True, for the first time the president publicly lent his own weight to the "Mandela package"—the release of the African National Congress leader, Mr Nelson Mandela, and of all other political prisoners; the unbanning of political parties; and the opening of a dialogue between South Africans white and black. He also asked for a timetable for the removal of apartheid: unexceptionable stuff as far as it went. Strikingly absent, however, was any suggestion as to what that timetable should be or any hint of penalties against South Africa should those various requirements not be met. There were carrots of reassurance and sympathy for white South Africans to chew on. There was absolutely no stick. The only gesture designed to fly in the face of President Botha was the appointment of a black Republican, Mr Robert Brown, as ambassador to Pretoria; he rapidly proved unsuitable because of questionable dealings in the past with Nigeria. The impact of the gesture was further blunted by Mr Reagan's failure to find a quick ambassadorial replacement.

The most notable aspect of Mr Rea-

gan's theme, indeed, was the restrained tenor of his criticism of white South Africa. He was studiously evenhanded, for instance, in his condemnation of black-nationalist as against government-perpetrated violence. He also sounded distinctly suspicious of the ANC, the party which most black South Africans support (see box on page 25). "The root cause of South Africa's disorder is apartheid", said the president, but then went on to defend the government's right to "maintain order in the face of terrorists", whom he appeared to identify, by implication, with the "Soviet-armed guerrillas of the ANC".

The president fell notably short, too, of supporting the nationalists' standard straightforward demand for majority rule, asking instead for blacks merely to "have a voice in their own governance". He then added that the South African government was "under no obligation to negotiate with any organisation that proclaims a goal of creating a communist state—and uses terrorist tactics to achieve it." Bad news, again, for the Russian-connected ANC, which had been hoping to have much closer contact with the American government.

Crocker undone

What does all this mean for Mr Crocker and his beloved but now barely whispered constructive engagement? On the face of things, the presidential verdict seems to be "no change". But there is an aura of failure around Mr Crocker's southern Africa policy which will not have been blown away by Mr Reagan's defiance.

The backbiters in Washington are not just the black caucus and the Democratic liberal-left. There is mounting hostility to Mr Crocker from Republicans, especially influential senators such as Mr Richard Lugar, chairman of the Foreign Relations Committee, and Mrs Nancy Kassebaum, chairman of the Africa sub-committee. To cap it all, Mr Crocker has never had the support of the hard right, which is not without influence in African affairs at the White House.

The three main aims of constructive engagement were, first, the settlement of the Namibian problem, meaning independence for that South African-ruled territory coupled with an exit of Cubans from Angola, the country to the north of Namibia; second, an acceptance by South Africa and its black neighbours that they

AMERICAN SURVEY

were interdependent, and that they should seek formal peace-loving understandings as tokens of neighbourly good faith; and, third, a commitment by the South Africans towards political reform at home.

All three bits of constructive engagement have collapsed. The first aim was scuppered when Mr Crocker overestimated the readiness of South Africa to hand over Namibia to a Soviet-backed guerrilla group, SWAPO. The second aim had a spasm of hope two years ago, when Mozambique signed a treaty with South Africa; but South Africa's sincerity was rapidly questioned because of the continuation of a South African-backed insurgency inside Mozambique.

The third aim, domestic reform, which seemed in some eyes to be particularly worthy of encouragement, was undermined by the extent of rebellion in the black townships and the determination of blacks to win real, not cosmetic, political power. These facts seemed to catch Mr Crocker by surprise, and ruined his calculation that the pace of reform could be set by white South Africans with gently nudging Americans at their elbow.

The criticism of Mr Crocker from the left is compounded by the frustration of the congressional right, which resents America's apparent lack of clout in the African sub-continent. Rightwingers grumble that under Mr Crocker the number of Cubans in Angola has nearly doubled. Others complain that Mr Crocker was far too reluctant to endorse military aid to Mr Jonas Savimbi's UNITA guerrillas once the Clark amendment, which banned such aid, was repealed last summer. Some say that Mr Botha has, quite simply, made a fool of the administration by stringing it along.

That is why the Senate may well part ways with Mr Crocker and the president on South Africa. Besides, there are votes in sanctions, not just from blacks but also from whites. On July 16th, the regents of the University of California, at the urging of the Republican governor, Mr George Deukmejian, enacted the biggest institutional disinvestment measure yet against South Africa, voting to sell off \$3 billion in stocks and bonds in companies which had South African dealings. Sanctions are not just a clarion-call for Democrats.

In the wake of the president's speech Mr Shultz, the secretary of state, holds out the prospect of some modest steps against Pretoria in September. But Mrs Kassebaum has already introduced a bill, which, though less stringent than one passed by the House on June 18th, slaps several extra sanctions on South Africa. If it gets a two-thirds majority, the president is unlikely to be able to prevent it becoming law.

Tax reform

The turn of the ungodly

WASHINGTON, DC

The religious phase of tax reform is over. Though Senator Bill Bradley, the "intellectual father" of reform, remains beatified, and is now mentioned as a long-shot for the Democratic presidential nomination, tax reform, in the main, has become just another political issue. As the conferees from the House of Representatives and the Senate meet to reconcile their differences under the chairmanship of Representative Dan Rostenkowski, the voices of politicians and lobbyists and deal-makers are once again being heard in the land.

The new secularism has a serious side to it. An essential component of both the House and Senate versions of reform was to shift the burden of taxation from individuals to corporations. Over five years, the House would transfer about \$140 billion of taxes to companies, the Senate perhaps \$100 billion. The result of doing that would be to take 6m Americans out of the tax net altogether, and (in the Senate version) to reduce income tax to just two rates of 15% and 27%. It looked a splendid deal.

Or it would have done, had the economy performed as well as administration spokesmen continued to claim that it has. But when the GNP figures for the second quarter of the year show an annualised growth rate of only 1.1%; when investment continues to falter; and when one of the few bright spots in the economy has

been the construction industry, a bill that removes investment incentives and hammers developers begins to look less than wonderful. Data Resources, a forecasting firm, has reported that the prospect of tax reform has contributed to a downscaling of projected industrial investment this year. It now expects the value of those investments to drop by 0.5% compared with the total last year; before tax reform became a serious prospect, the forecasters thought that investment would increase by 3.4% over 1985. It is now quite common to hear them worrying whether tax reform in a weak economy might not nudge America into a recession.

Hence some of the pressures to which the conferees have been subjected. A few weeks ago, it looked as if the administration was shrugging its shoulders at the transfer of the burden from individuals to corporations. But it is now clear that, although it may tolerate such a move—at least in the more modest Senate version—it does not want it to be made any sharper. Thus when the conference kicked off with a debate on whether the "middle-class" should be helped more—an odd session, given that no two conferees could define the bourgeoisie in the same way—up popped the treasury secretary, Mr Jim Baker, to say that was fine, so long as business wasn't hurt any more.

To his voice has now been added a combined yelp from the National Association of Manufacturers, the National Chamber of Commerce and a coalition of capital-intensive industries. Their precise demands vary, but all prefer the Senate bill to that of the House. They do so, for example, because the Senate provides more generous treatment of the depreciation of assets. Another cause of complaint



Rostenkowski will soon bring Bradley down to earth

is that under both bills many tax breaks would disappear on January 1 1987, but the new lower rates would not come into effect until six months later. That, it is claimed, will artificially inflate next year's tax bills. Moreover, it is argued that taxpayers will not liquidate any capital assets until the new lower rates come in, thus removing some potential cash from the economy. Better to do it all at once.

Again, some industrialists, while recognising that the 10% tax credit for investments is going to go, see no reason why it should be done away with for any investments made after January 1986 and say, fairly, that this retroactivity is an unfair method of grabbing some extra revenue.

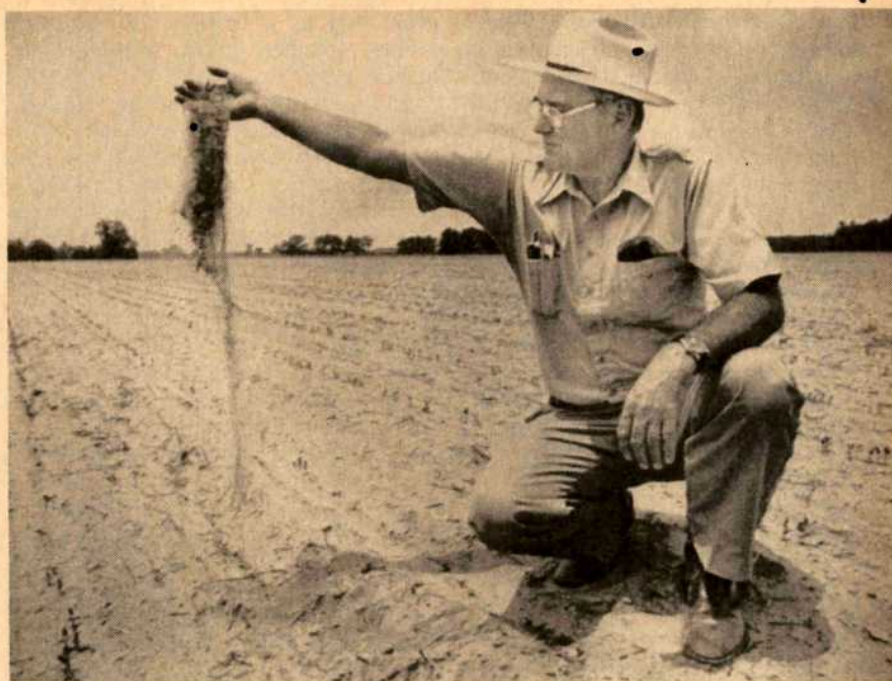
In the political game that tax reform has become, the industrialists would not expect to have everything their own way. Each lobbying force, by now, attracts an equal and opposite one. Thus Citizens for Tax Justice, a group influential in liberal circles which has long argued that corporations pay little or no tax, has returned to the fray. Its latest report—which has not gone unchallenged—claims that of 250 large firms, 130 paid no tax at all in at least one of the years between 1981 and 1985.

The top six defence contractors, who can defer their taxes on a Pentagon contract until it is completed, incur particular wrath. Their combined tax burden, it is claimed, was only 3.5% between 1982 and 1985, with General Dynamics and Boeing said to have had a negative rate of tax—meaning that far from giving money to Uncle Sam they got some from him—over those years.

In a no less damaging report, Tax Analysts, a publishing firm whose works are widely used by lawyers and accountants, has given graphic evidence of the distorting effects of tax shelters. They have computed the effective tax rates for different sectors of the economy. In 1985, they claim, the construction industry had a negative tax rate of 3.6%, while filmmakers paid just 8.3% in tax. But the clothing industry, which apparently got fewer breaks (it saves its lobbying for protection against foreign competitors) paid no less than 46%.

For the conferees, now forced to contemplate working weekends, such figures must now be turned one way and another, the flaws in them probed and picked at. That, at least, is what the state of the economy now requires.

But it will surprise nobody if, instead, the conference turns into a good old-fashioned horse trade. Despite the presence of Senator Bradley on the conference committee, tax reform now rests in the hands of those skilled in the black arts of politics, not in the breasts and prayers of the godly.



Drought

A handful of dust

RALEIGH, NORTH CAROLINA

Southerners have long learned to live with what their weather forecasters call the "Bermuda high". Every summer, when a fair-weather system of high barometric pressure forms over Bermuda, people in the south-eastern United States know they can expect a spell of blue skies and high temperatures, broken only by late afternoon thunder-showers. This year, however, the jet stream—the river of winds that steers weather systems between the Arctic and the tropics—has remained in a steady pattern. This has allowed the Bermuda high to drift inland and block out rain-laden clouds from the north.

Since last December, many places in the South have received only a fraction of their normal rainfall. Richmond, Virginia, has had 50%; Birmingham, Alabama, 44%; Nashville, Tennessee, 40%; Athens, Georgia, 38%; Charlotte, North Carolina, 32%. The past two months have been uncommonly hot, even for the South. Columbia, South Carolina, experienced 14 consecutive days during which the temperature reached 100°F. Augusta, Georgia, where the Masters Golf Tournament is played, has had 31 consecutive days of 90°F and above.

Many parts of the South are suffering not only an agricultural drought, which means insufficient top-soil moisture to sustain healthy crops, but also a hydrolog-

ic drought, which occurs when ground water and streams dry up and which takes much longer to correct itself. In Atlanta, authorities in both the city and suburbs have imposed restrictions on washing cars and spraying lawns. In North Carolina, water use is rationed in Charlotte, Durham and Chapel Hill: the mayor of Chapel Hill has asked residents to spend no longer than four minutes on their daily shower.

For most city dwellers, the drought and the heat impose, at worst, physical inconvenience and discomfort. For farmers, however, the drought has inflicted losses of hundreds of millions of dollars. The federal government has been asked to declare 50 counties in North Carolina, 30 in South Carolina and 17 in Virginia disaster areas to allow farmers to apply for help. An assistant agriculture secretary, Mr George Dunlop, has been dispatched to assess the crop damage. Air Force transport aircraft, as well as trains and trucks owned by private companies, have begun to ship hay from the Midwest to the South, where there is scarcely any grass left for cattle to graze on.

Many beef-cattle farmers have been giving up, and selling off their herds. The North Carolina Cattlemen's Association reports weekly sales of 12,000 to 15,000 animals, compared with weekly sales of 6,000 to 7,000 at this point last year. The director of the association reports that farmers are selling younger cattle, 100lb lighter than normal, at a loss of about \$90 per head. The hot weather has also reduced the fertility of swine, and it has killed as many as 1m young chicks in the region's poultry farms.

The corn crop has been reduced by as

AMERICAN SURVEY

much as a third in parts of the South. Soybeans, cotton and peanuts have also suffered damage. Tobacco, a hardy plant, has withstood the heat so far, but yields could be reduced as the drought lingers. Forest fires have claimed 128,000 acres of dried timber in North Carolina alone this year.

Federal disaster relief comes mainly in the form of low-cost loans, but that may not help many farmers already burdened by debt. While the South's cities have prospered, its rural communities have fallen into a persistent recession. The drought is likely to drive more people off the land. And, for the moment, no break in the weather is in sight. Having experienced its driest winter on record, followed by its driest spring, the south-east is about to enter that part of the year which is dry at the best of times, September and October.

Smoking

Marlboro Man, RIP?

BOSTON

Every year, Congress appropriates \$3.5m for the Office on Smoking and Health to put out the message that smoking kills. Every day, the cigarette industry spends nearly twice that much promoting its product. Congressmen are at last becoming exercised by this incongruity. On July 18th, a committee of the House of Representatives held the first-ever hearing to consider a ban on all promotion of tobacco products, from advertisements to the distribution of free cigarettes at rock concerts. A more limited measure, sponsored by Senator Bill Bradley, would eliminate the tax deduction for tobacco

promotion as a business expense and require tougher health warnings and higher excise taxes.

The star witness at the hearing was meant to be the surgeon-general, Dr Everett Koop, who is a leading crusader for a smoke-free society. But Dr Koop's keepers in the White House became alarmed at what could be interpreted as administration support for a ban. Dr Koop will now appear at a hearing on August 1st, in the company of industry opponents of the bill; his testimony will presumably have been suitably cleansed.

The strongest arguments in favour of an advertising ban are the costs of smoking: 350,000 premature deaths a year in the United States alone and an estimated \$65 billion a year in medical bills and lost productivity. Tobacco companies are the only remaining disbelievers in the causal link between smoking and cancer and heart disease; last month, the Federal Trade Commission charged the R. J. Reynolds company with deceptive advertising for understating the health risks of smoking. But the companies are opposing an advertising ban because, they say, it would violate first amendment freedoms; and it would not reduce consumption, because advertising aims only at maximising market share for individual brands.

Proponents of a ban tackled both these contentions at the hearing. The legal case for the companies has been weakened since a Supreme Court ruling on July 1st, which supported the right of the Puerto Rican government to ban advertising for local casinos; although some thought this a bad decision, dangerous to free speech, for the moment it stands. Senator Bradley and his partner in the House of Representatives, Mr Pete Stark, offered up a legal opinion from the law division of the

Congressional Research Service, asserting that their bill to disallow tax deductions would pass constitutional muster.

There is, anyway, a question whether tobacco advertising supports or suppresses free speech. Witnesses provided examples of magazines such as *Sports Illustrated* rejecting articles on smoking-related diseases for fear of antagonising advertisers. *Time* and *Newsweek* have both censored bad news about smoking out of supplements produced in collaboration with medical associations. Once, when *Newsweek* did publish an anti-smoking piece, the pre-warned cigarette companies withdrew all their advertising from that issue—a loss to the magazine of about \$1m.

Women's magazines are a study in self-censorship: although lung cancer has recently passed breast cancer as the leading cause of death among women, four of the ten leading women's magazines carried not a single article on smoking in 12 years (1967-1979) when women's smoking was rising fast and the other six published a total of eight articles between them. In contrast, *Good Housekeeping*, one of the three big-circulation magazines which refuses tobacco advertising, published 11 pieces on smoking in the same period. The price of principle is high: *Readers' Digest* reckons that its refusal to print tobacco ads has cost it \$242m over the past 30 years.

Research has not established a direct connection between advertising and consumption. But the increase in smoking among women, a prime target of cigarette promotion (and of new brands) since the late 1960s, points to cause and effect. So does the revival of chewing tobacco, which was an old man's taste until the companies started promoting it as a virility symbol for the young. Now 36% of male students are regular users of smokeless tobacco and sales have increased by 52% in seven years.

Surveys show that only 10% of smokers switch brands every year. Yet the manufacturers spend \$2 billion on cigarette promotion—which is equal to 10% of their gross receipts. So wooing brand switchers alone would be a no-win game and the companies might actually come out ahead if advertising were banned. But advertising clearly has another function, which is to replace the 350,000 smokers a year who die from their habit, the 1m former smokers who defect and the 500,000 who die from natural causes. This means that the industry must find some 2m new smokers every year just to stand still. Since 90% of smokers get hooked before the age of 20, the main new market must be teenagers.

The cigarette industry's own advertising code forbids promotion directed at



The only sort of cigarette advertising you might soon see

people under 21. Yet as a psychologist and a management consultant pointed out at the hearing, many advertisements are specifically designed to appeal to the vulnerabilities and needs of 13- and 14-year-olds: the image of self-reliance and self-confidence projected by the Marlboro man, for example. Even 12 year-old girls have been found to identify more with the cowboy than with the fun-loving actresses pictured with cigarettes. The result of this use of "psychographics" to target impressionable young people is that Marlboro has gone from being a failing brand to become the country's best-selling cigarette, with 50% of the teen market. *TV Guide*, which makes more money from cigarette advertising than any other magazine, stresses to its tobacco industry clients that each issue reaches 9m adolescents under 17.

The profile of the smoker has gone down demographically in recent years and tobacco advertising has followed. There is more use of billboards and more space taken in magazines such as *People*, *Field and Stream*, and *Popular Mechanics* and in black publications such as *Ebony* and *Jet*.

Blacks now have a higher rate of smoking than whites and the highest rates of lung cancer and heart disease of any population group. Yet black leaders have been as silent as women's organisations about the dangers of smoking and for similar reasons—tobacco dollars. The American Medical Association, the American Heart Association and now some members of Congress see breaking the sponsorship habit as a way of helping to revive a particular brand of free speech.

Wheat

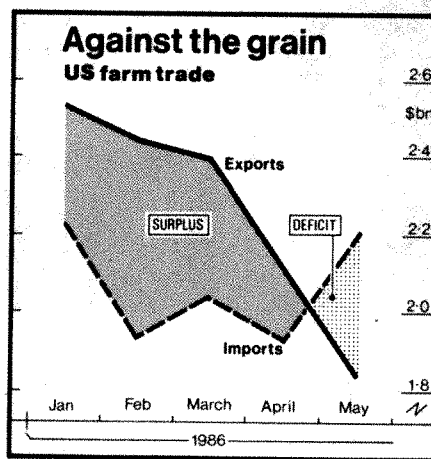
A poll too far

An odd little exercise has been going on this month in the Agriculture Department. Questionnaires have been sent out to 1m wheat farmers, and to about 1m other people who dabble in wheat, asking them whether they would like to replace the present government subsidy programme with a system of mandatory controls on production. If they say no, policies will stay as they are. If they say yes, the department means to ignore them. If, that is, it can.

The wheat-farmer referendum is a relic of the feverish congressional bargaining that took place last summer over the farm bill. It should have disappeared long ago. Most people thought it had. An idea to poll most grain farmers, and to introduce production controls if 60% were in favour, was defeated in committee in July

in both the House of Representatives and the Senate. By September it had crept back again, and was killed again on both floors. Then Senator Edward Zorinsky of Nebraska demanded of Senator Robert Dole, when the bill was in conference, a poll of wheat farmers for advisory purposes only. Senator Dole, having wheat farmers close to his own Kansan heart, slipped the clause in, and so the Agriculture Department found itself obliged in July to send out the papers.

There is probably no good time to ask



Source: US Department of Commerce

farmers their views of government. On this occasion, however, the government has only just issued figures damning to itself. The drift of the new five-year farm bill is to bring prices of all grains more closely into line with world market prices by cutting the loan rate to farmers. This is meant to put exports up. The latest trade figures show that farm exports are falling precipitously, towards an estimated \$27.5 billion this year against \$44 billion in 1981. In May, farm trade was actually in deficit—for the first time, dock strikes apart, since 1959. The principal reason for this collapse was the fall in exports of grain.

The government says that buyers are merely waiting until this year's harvest, in order to purchase at the new lower price. (The loan rate for wheat was set on June 1st at \$2.40 a bushel, down from \$3.30 last year.) Many farmers suspect, however, that the buyers have gone away for good. The dollar is still high, and customers, including Russia, are under no obligation to buy from America if prices are not competitive. Old-time buyers, such as China, now produce more wheat of their own. The world, in fact, has a surplus of 4.6 billion bushels of wheat. Why seek to increase exports of something of which everybody has plenty already?

Mandatory controls on production, which would probably involve a cut of 30% in cropland under wheat, would shrink American involvement in the

world market. They would, temporarily but quickly, put more money in the pockets of the farmers, and put up prices of bread and cakes at home. Bakers, grocers and meatpackers, and wheat farmers in the north-west who export most of what they grow to Japan, object to the referendum. Mid-west farmers are heavily in favour, as, against their better principles, are the country bankers who want to get some of their money back. Mr Richard Lyng, the agriculture secretary, has been out on the road canvassing for a no vote. He may believe it is all nonsense but, with half the 22 contested Republican seats in the Senate belonging to farm states, he cannot risk a public rebuff.

Los Angeles

Brown versus yellow

LOS ANGELES

No one disputes that Hispanics are poorly served politically in Los Angeles. They make up probably the largest ethnic group in the city, yet there are no Hispanic congressmen to represent Los Angeles and only one who serves on the city council. That councilman, Mr Richard Alatorre, was elected only last autumn, making him the junior member of the council.

The reasons for this tiny political voice are not difficult to identify: language barriers, a population that is largely young, a high percentage of non-citizens and inadequate political leadership. All these factors have enabled other ethnic groups to carve out political districts in the city while ignoring Hispanic interests. There are, for example, three black and four Jewish representatives on the 15-member city council. These groups make up approximately 20% and 15% respectively of the voting population of Los Angeles, considerably less than the percentage of Latinos in the city.

The gerrymandering—for that is what it is—resulted in a lawsuit brought some years ago by the Justice Department. Los Angeles was found in violation of the Voting Rights Act, and the city council was given until July 31 1986 to produce a redistricting plan that was not discriminatory. During the past four years, the city council has done relatively little in response to that court order. Ten days ago, however, a plan was suddenly introduced by Mr Alatorre that would carve out a new district for Hollywood, in which approximately 66% of the voters would be Hispanic. Not surprisingly, the representative for Hollywood, Mr Michael Woo, an Asian-American (and the only



Cut off from politics too

Asian-American on the city council), countered with a plan of his own; two other plans were also introduced.

Mr Alatorre, however, is chairman of the council's redistricting committee, and had taken care to line up votes from black and Jewish city councilmen: his plan does not affect either their districts or their constituents. Mr Woo's complaint was that the Hispanic leader on the city council was planning to disfranchise Asian-Americans in much the way that black leaders some 20 years ago had muted the political voice of the Hispanics.

The city council voted in favour of the Alatorre proposal by nine votes to six, only to see it vetoed an hour later by the mayor, Mr Tom Bradley. This was not entirely unexpected. Mr Woo is not just the only Asian-American to serve on the city council, but also the first, and the mayor remarked on the irony of redressing an inequity at his expense. He was also under pressure from Asians, who contributed \$200,000 to his campaign for mayor last year and are supporting him for governor now.

Ten votes are needed to override a veto, and the majority will try to persuade one of the six dissenters to reverse himself in the next few days. Yet even if the council is able to override the mayor, the court may find the plan wanting. The city has to present a redistricting plan that minimises discrimination against any group of voters, not just Hispanics. If the court is dissatisfied, the responsibility for drawing up a new scheme will fall to a federal judge or the Justice Department. A number of councilmen may then find their seats in jeopardy.

Asian-Americans are particularly vulnerable. They constitute a new and rising immigrant group in Los Angeles. Like Hispanics, they face language barriers and many of them are not citizens; unlike Hispanics, most of them, except the Korean community, are dispersed in different pockets of the city. Koreans, Japanese-Americans, Cambodians and Chinese-Americans all have quite distinct cultures, languages and political interests. They compete for jobs, education and what little political influence they can get. There is little sign of willingness on the part of those ethnic groups—blacks, Jews, Italians and now Hispanics—who were outsiders in the past to make room for them within the city. It will take several major political issues, in which Asian-Americans, separately or collectively, can bring out their voters, before accommodation will be achieved.

Eminent domain

Meet it in St Louis

ST LOUIS

On a fine day in June, more than a thousand St Louisans decked out in red, white and blue hats and buttons staged a noisy mock convention in the city's Arena for the entertainment of the Republican Party Site Selection Committee. The Republicans, looking over cities for their 1988 convention, were wine and dined; they were politely impressed and moved on to another city's promotion.

About three weeks later, the city of St Louis declared that the Arena "consti-

tutes an economic or social liability or a menace to the public health, safety, morals or welfare in its present condition and use", in the words of the statute, and condemned the building as a first step towards seizing it and levelling it to the ground. All perfectly legal, and part of the increasingly common use of the government's power of eminent domain.

Eminent domain is the government's right to seize private property for a public purpose; it has often been used to build roads, railways and military installations. The fifth amendment to the constitution recognises the right but requires the government to make compensation. In 1954 the Supreme Court upheld the power of a local government to take private property even though the intended public use of the land was to sell it for profit.

The people who run St Louis and the area round it excel in their imaginative use of eminent domain. The mayor and city council of suburban Richmond Heights approved the condemning of a middle-class neighbourhood and the sale of the land to a developer for a shopping centre. After a long court fight, the residents lost. In St Louis itself, three historic downtown buildings have been seized and demolished to make way for a glass office tower. The mayor, Mr Vince Schoemehl, also closed the public hospital, took over a privately-owned hospital and set up another private company to operate the new public hospital. The city later sold the old public hospital to a condominium developer.

The condemning of the Arena, the home of the St Louis Blues hockey team, represents a sally in the latest battle. Mr Bill Bidwell, the owner of the Cardinals football club, threatened to move the team to Phoenix unless he got a larger, domed stadium. The city and county governments immediately began to outmanoeuvre each other to build a stadium to Mr Bidwell's liking. Mr Gene McNary, the Republican St Louis county executive, proposed building one with private money on an empty floodplain; Mr Schoemehl wanted a downtown complex suitable for both hockey and football. He seems to know how to get it. Not entirely by coincidence, the proposed buyout of the Arena would also settle a personal score between Mr Schoemehl and Mr Harry Ornest, the owner of the Arena, with whom the mayor has crossed swords for more than a year.

Late in the day, the planned destruction of the landmark has finally struck a public nerve; a Save the Arena campaign is underway. If it succeeds, it will remind city officials that the power that can clear slums and build schools cannot necessarily be abused for private and political gain.

BRITAIN

The Queen and her prime minister

Who told the *Sunday Times* about the Queen's alleged disapproval of a wide range of her prime minister's policies: the conduct of the miners' strike, the use of British bases for the American bombing of Libya, and, most topically, the reluctance of Mrs Thatcher to go along with Commonwealth pressure on South Africa? A week of intense speculation has left a clear impression of the source: a briefing from within the palace press office, headed by Mr Michael Shea, which was



On Tuesday, in private . . .

then embellished into a front-page story by excitable journalists who described him as an "unimpeachable source". Similar suggestions of royal displeasure which appeared in other newspapers were apparently inspired by government ministers and Commonwealth officials.

Mr Shea says that none of the Queen's three private secretaries had spoken to the *Sunday Times*. He admits that "it would be very strange if a press secretary did not talk to a newspaper." He earlier had stated that the original story was "entirely without foundation". He appears to have fallen victim to a classic bit of journalistic skulduggery by the *Sunday Times*'s Mr Simon Freeman: a series of leading questions, platitudinous answers to which could be turned into specific assertions. The Queen's "concern" over successive areas of government policy

could then be run together into what seemed a catalogue of displeasure.

The *Sunday Times* claims the resulting background feature, based on the briefing, was read over to Mr Shea. Mr Shea refused to confirm or deny this. What was not read over was the front-page story which turned a backgrounder full of unattributed assertions into a hard news story that "the palace" had wanted the Queen's views made public.

If Mr Shea had intended to convey through the *Sunday Times* the Queen's disapproval of government policies, only two people would have been in a position to authorise such a briefing: Sir William Heseltine, the top private secretary, or the Queen herself. That seems most unlikely to have happened.

At Westminster the incident was treated as a red-hot coal. Tory backwoodsmen spluttered with indignation. "There is clearly a mole in the palace: the question is whether he is trying to destroy Margaret or the monarch herself." Downing Street refused all comment. So did Mrs Thatcher in the House. The opposition front bench, sensing the political dangers of dragging the Queen into party battles, resisted the temptation to use the incident to discomfort the government further. The press was in general hostile to the idea that the Queen had the right to let her private views on a political issue become known.

Royal circles

It is a cardinal rule of Britain's unwritten constitution that the monarch has the right to speak openly about government policy only on that government's behalf. Thus, in the "Queen's speech", the annual statement of government policy that she reads from the throne at the ceremonial opening of Parliament, most paragraphs begin with such words as "my government will".

The Queen lives and works within four separate circles of people who nowadays rarely overlap:

- Her social circle is fiercely loyal to her, and totally discreet about conversations

with the Queen. This circle includes one or two Tory backbench MPs, but no present minister. The last prime minister who could have been regarded as "a friend of the family" was Lord Home.

- Her staff, headed by the private secretary, who is her confidential channel of communication on all state political matters. This official has always been of crucial importance to the monarch of the day. It is he who would advise on any political or constitutional crisis, and who would have a key role in advising which politician should be invited to form a government in the event of a hung parliament. While some of the courtiers in this circle are also accepted as family friends, most remain royal servants. All have shown complete dedication to the monarchy and the monarch. They are normally



. . . not on Sunday, in public

as tight as clams if ever they do have to chat to outsiders.

- Those who see the Queen officially. This list is headed by the prime minister of the day, who for many years has had an audience with the Queen each Tuesday evening. Sovereign and prime minister, alone and without advisers, discuss matters of state. Prime ministers never reveal what has been discussed even to their closest cabinet colleagues, although some former prime ministers have been known to boast how well they got on with their monarch. The Queen, as head of the Commonwealth, would also receive in audience prime ministers of other Commonwealth countries, but the arrangements are normally more formal and the relationship more cautious.

- The public. No monarch has moved so far as Queen Elizabeth II to make person-



They dropped Shea in it

al contact with ordinary people in Britain and overseas. But she habitually deflects questions or comments which approach sensitive political issues.

What happens now? The most serious damage may be not to the Queen's relationship with Mrs Thatcher, but to her ability to help in the South Africa crisis. The *Sunday Times* story may inhibit the Queen from embarking upon some of the private diplomatic initiatives (at which she has previously shown herself to be skilled) with the Commonwealth prime ministers who will gather in London at the beginning of August for the emergency conference on South Africa.

Nationalised industries

Called to account

Five nationalised industries reported their results this week—applying a bemusing range of accounting conventions that makes it hard to compare their performance either with each other, or with companies in the private sector.

Of the five, four appeared to be profitable (the fifth, British Shipbuilders, lost 2½ times its entire turnover). Strip out government grants and subsidies, though, and put back the levy which the government creams off British Gas (BGC). Then, as the table shows, the picture looks different: only British Gas and the Post Office are still in profit. That, of course, is why British Gas is about to be privatised; and why the industry secretary, Mr Paul Channon, would like some of the Post Office's activities sold.

British Gas has now published—for the first time this decade—an audited, histor-

ic-cost profit-and-loss account and balance sheet. For that, thank prospective privatisation. Previously, the historic-cost profit had to be dug out of the small print. The chairman, Sir Denis Rooke, says he still intends to report on a current-cost basis, and will regard this as the main profit figure to note, even after privatisation. Investors and City analysts will ignore him, preferring the historic-cost figures.

His argument about proper accounting conventions for his industry has some validity. Many of Gas's assets, such as mains pipes, have unusually long lives, and so historic-cost balance sheets understate the real value of the business. But the differences are considerable: the corporation's net assets (fixed plus current assets minus current liabilities) were £18.4 billion at the end of 1985-86 on a current-cost basis, £7.7 billion on an historic-cost basis. BGC's return on capital was 3.9% on a current-cost basis last year, 13.6% on an historic-cost basis.

The unusually cold winter boosted the volume of gas sales by 5.4% and the corporation's revenues by 11.2%. The cost of natural gas supplies per therm, including the government levy, went up by 10.9%. Operating profit rose only 5.6%, from £651m to £688m, on a current-cost basis, or 8.1%, from £931m to £1,006m, on historic-cost. This year, profits will be down, in part because of interest payments on debt, but also because of falling oil prices. Most gas-supply contracts are linked in part to changes in oil prices, so BGC's gas costs will in time come down—but the benefit will not start until the autumn. Revenue is being lost immediately as big industrial users with dual capacity (oil or gas) switch back to cheaper oil. BGC has lost 15% of its interruptible customers so far this year. Result: profits squeeze this year, probable recovery next.

BGC does seem to be becoming more efficient: it has cut its unit trading costs per therm sold by 12.5% in three years, against a government target of cutting them by 12% in four years. The number of employees has dropped by 14,500 in the past five years, to 91,500. The household energy market, of which BGC holds 60%, continues to be its power base, and

its main hope for profitable growth.

The other money-maker is the **Post Office**. This year's accounts show an operating profit of £140.5m. Of the corporation's four divisions: letters and parcels (previously treated together) made less money this year than last, partly because the price of second-class mail was cut, and that of first class frozen. Counters—a category which covers payouts and sales made from post offices, often on the government's behalf—is still the worst of the divisions at making money, but it increased its efficiency by closing some post offices and getting its staff to work harder. Comparisons between the Post Office's banking arm (Girobank) and the rest of the corporation are difficult to make because it uses different accounting conventions in preparing its figures.

The Post Office Users' National Council complains that the government's rules for financing the Post Office hurt its customers. The Post Office is one of the half-a-dozen-odd nationalised industries which pay money to the government instead of borrowing from it. That money, says the council, ought to be spent on new investment or on freezing prices. After trumpeting to the skies its price cut last year ("the first reduction of its kind since the penny post"), the corporation has announced price rises for both first- and second-class mail from October.

Customers complain most about slow letter deliveries and long queues in post offices. The target of delivering 90% of first-class letters on the following working day, and 96% of second-class ones within three working days, is almost as elusive now as in 1981. Delivering letters is labour-intensive: the letters, parcels and counters divisions employ almost 180,000 people and have a yearly wage bill of £1.8 billion. What is needed is not just efficiency drives and new agreements with the unions, but more automation.

Quality, reliability and more investment are what **British Rail** needs if it is to build on the move back to public transport which seems to be signalled in its report and that of **London Regional Transport** (LRT). BR's results look better than last year: a small apparent surplus of £1.2m, instead of the 1984-85 loss of £420m. Last year ran for 15 months,

Nationalised industry results 1985-86

	Sales £m	% change on 1984/85	Net profit (loss) £m	True net profit (loss)†† £m	% change on 1984-85
British Shipbuilders	173.3	+1.2	(429.8)	435.6	+238*
London Regional Transport††	672.8	14.4	27.6	(262.1)	-16†
The Post Office‡	3247.5	+1.2	99.5	99.5	-11
British Railways‡†	2249.3	+17.9	1.2	(894.7)	-30†
British Gas	7687.2	+11.2	720.5	1240.5	-5

†current cost accounts; ‡1984-85 adjusted to 12 months from 15 months results; ††excluding government grants and payments; *increased loss; †reduced loss

More on the dole

The government had hoped that Britain's dole queue would shrink this year. Instead it seems to be growing faster

In the first six months of this year, unemployment grew by an average of 15,000 a month, compared with only 3,000 a month in the second half of 1985. This is the fastest rate of increase since early 1983 (see chart). Ministers talk nervously of a "new shake-out".

However, the government has managed to trim the officially announced unemployment rate by making yet another adjustment to the way it calculates the figures—the 16th change to date. Each of the previous 15 has reduced the number of people on the register. The official total of 3.22m adults unemployed in June would be about 420,000 higher if those removed by new statistical definitions were added back in.

The latest adjustment relies on an elementary mathematical rule: the bigger the number you divide by, the smaller the answer. Thus, by dividing the number out of work by the total labour force (including the self-employed and the armed forces)—instead of, as previously, just dividing by the sum of employees and the unemployed—the jobless rate is cut from 13.1% to 11.7%.

Sadly, even by this new measure, Britain's unemployment rate remains by far the highest among the big seven industrial economies. Moreover, while unemployment continues to rise in Britain, it is now falling in other European countries such as West Germany, France, Holland and Belgium.

During 1984 and 1985, the government pinned its hopes on the rapid rise in employment. In those two years, the dole queue continued to lengthen simply because the labour force grew even faster. Almost every ministerial speech included a reference to the 1m new jobs created since March 1983—although rarely to the fact that half of these jobs were taken by the self-employed and the other half by part-time women. Full-time male employment remained flat.

During the past 12 months, the growth in employment has slowed sharply. In 1983 and 1984, an average of 100,000 new jobs a quarter were created. This dropped to 70,000 a quarter in 1985. Then, in the first quarter of this year, there were only 25,000 extra jobs. Even that figure rests on the government's guess that self-employment rose by 30,000 during the quarter. The total number of employees actually fell—for the first time in three years—by 5,000.

Manufacturing industry is again shedding workers fast. In the first five months of this year, employment in manufacturing fell at a monthly rate of 13,000, compared with an average loss of only 2,000 in 1984 and 1985. During the same

five months, manufacturing output was 0.6% below its level a year earlier. Firms which had kept surplus labour through 1985 in the hope of stronger recovery have now given up, and laid workers off. More successful firms have delayed taking on new workers until they see evidence of a rebound in orders.

Since 1979, total employment in manufacturing has shrunk by a quarter. The labour shake-out in engineering has been particularly severe. Employment has been slashed by between a half and two-thirds in companies like GKN, the TI Group and Turner & Newall (see table).

Looking ahead, the Department of

Major engineering companies

	Number of employees in Britain (000's)		
	1978 end '82	Latest	
Lucas Industries	69.6	53.0	47.0
GKN	70.8	40.0	22.0
Northern Engineering	32.1	26.5	21.0
Vickers†	17.3	18.0	15.0
TI Group	60.3	32.0	20.2
Babcock	21.9	14.7	13.8
Turner & Newall	23.8	13.5	8.2
Delta	23.4	13.5	10.5

†includes Rolls-Royce Motors (roughly 8,000 employees) since 1980.

Employment reckons that the labour force will rise by 1-3% a year in 1986 and 1987. With productivity growth of around 1½-2% a year this means that output must grow by 2-2½% simply to absorb the extra labour and hold unemployment constant. Most private economic forecasters now reckon that real GDP will grow by only around 2% this year—well below the Treasury's budget forecast of 3%; they think that growth should quicken in 1987, but probably only to something like 2½%. This means that unemployment is unlikely to fall much, if at all, before the next election

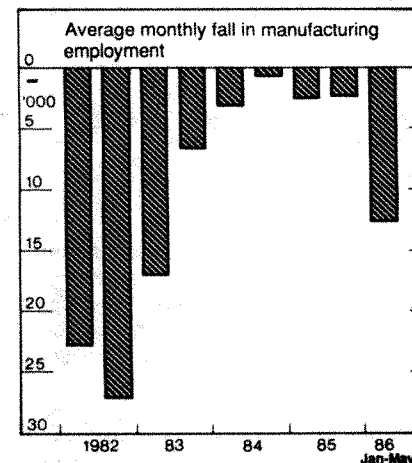
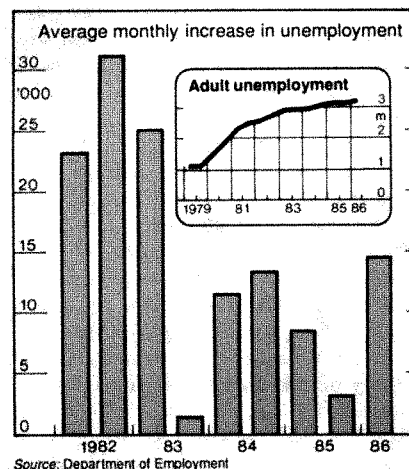
unless the government thinks up additional special-employment measures. From 1988 onwards, life will be easier, because the labour force is expected to grow more slowly—by barely 1% a year from 1988 to 1991.

Although more than 3m people are unemployed, some companies are crying out for skilled labour. The number of vacancies reported to jobcentres has doubled since 1981 and is now back to its 1978 level, even though the dole queue is three times as long.

Part of the problem is that many of the unemployed have the wrong skills and are in the wrong place. As a study reported in the current *Employment Gazette* shows, firms since 1980 have tended to increase employment in the top occupational grades, such as management and technical services, and to cut back on jobs in lower grades, which need less skill. Skilled workers whose industry shrinks may not be able to switch skills easily, and so may join the queue of youngsters and unskilled workers hunting for a dwindling number of unskilled jobs.

Partly as a result, a growing proportion of the unemployed has effectively withdrawn from the labour market. All of the increase in unemployment since 1981 is accounted for by a rise in the number of long-term unemployed—ie, those out of work for more than a year. The government's Restart scheme, which went national on July 1st, will call in all these long-term unemployed for an interview at a jobcentre. Restart does not create new jobs, but it can help to bring the jobless back in touch with the labour market.

The all-party House of Commons Committee on employment wants the government to do more. It has scaled down its original £3 billion-a-year proposal of providing a job guarantee for all the long-term unemployed. Now it suggests the guarantee should first be offered to the 1m people who have been jobless for more than three years. Accelerating unemployment may persuade ministers to give the idea a try.



because of a change in accounting period; it included the cost of the year-long miners' strike (£250m) and of closing bits of British Rail Engineering (£102m). The railways still lose money on passenger traffic: but only £844.5m, compared with the previous year's £1.2 billion, before government grants.

The railways benefited not only from a rise of some 3% in staff productivity, but from a 4% increase in the number of people travelling by train. This brought passenger volume to its highest level since 1979. For it to continue, BR will have to improve standards of service. Only 73% of Inter-City trains arrived on time last year. A lick of paint goes only so far; what passengers, and BR, need is new rolling stock, for part of which tenders will begin to go out in the autumn.

LRT managed, two years ahead of schedule, to cut its government grant to £97m, the target (all but £2m) set by the government when it took over the running of London Transport in 1984 from the now-defunct Greater London Council. For the better results, Londoners had to put up with fewer buses and longer waits for them.

Nationalised-industry chairmen do not get profit-related pay. Perhaps that is just as well for Mr Phillip Hares, the chairman of **British Shipbuilders** (BS). His was the largest salary (£109,415) of the five corporations reporting this week, and his industry's was the largest loss. After interest, extraordinary write-offs and sundry other provisions, BS lost £429.8m. Part of that can be attributed to a book loss of £248m from the piecemeal privatisation, this year and last, of BS's six warship yards.

Mr Hares should have a happier story to tell in 1987. No sooner had he closed BS's books for the past year than the new orders on which he had counted to save thousands of jobs arrived. On July 22nd BS said it had won £90m-worth of orders from two Danish shipping companies. The orders, for 24 small ferries, amount to more new tonnage than BS won in the whole of last year.

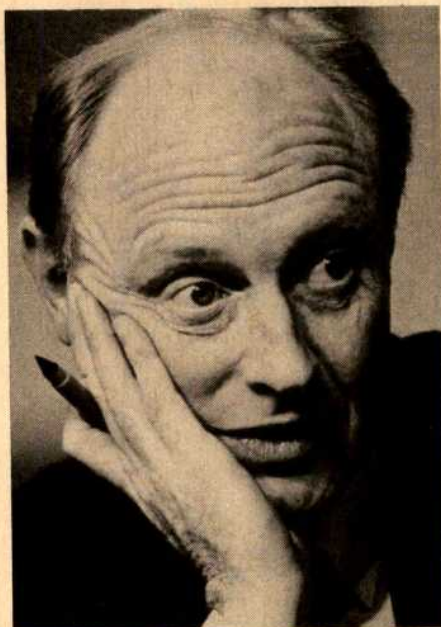
Opposition policy-making

Elusive visions

The broad outlines of the policies on which the Labour party will fight the next election are now in place. On July 30th, the party's national executive committee (NEC) will discuss a clutch of documents on the policy areas it knows it most needs to tackle. The documents will then be presented to, and approved by, the party's annual conference in October. They include such perennial torments as nucle-

ar energy, defence, labour relations and taxation.

Never has the process of policy-making in opposition been so stage-managed. After Labour's defeat in the 1983 general election, its new leader, Mr Neil Kinnock, changed its decision-making structure to give himself more control. Shadow cabinet ministers are now involved in policy-making from the start; this is supposed to save them from being saddled with policies, concocted by the NEC or the national conference, with which they do not agree. It is from the new committees



Kinnock's party is hostage to its past

set up by Mr Kinnock that the various policy documents are emerging, with comfortably abstract titles like "New Rights, New Responsibilities", or "Labour—the party of production".

The only documents to have been published so far, on labour relations and low pay, have come from a joint committee of the party and the Trades Union Congress (TUC). Mr Kinnock and the centre-left politicians who form his most loyal supporters would like to make up for scrapping most of the popular trade union reforms of the Conservative government by inventing new laws as capable of capturing the public imagination. The message they would like to get across is that they are more interested in preventing disputes between workers and their bosses than in giving either side new ways of winning them. The policy document gives a more prominent position to employee-consultation and industrial democracy than it does to the rules governing disputes.

But the old sticking points remain. Many trade unionists see the bits of the document which try to be visionary as so

much flannel, put in to woo the electorate. To them, the important bits are the limited degree to which secret ballots would be imposed by law, and the nature of the tribunal which would rule on complaints against unions by their members. As a result of the battles on the committee, the document has emerged in so verbose and garbled a form that it is difficult for any voter to make out Labour's policy on these two points.

Although the involvement of the TUC in the formation of policies governing its own existence was bound to cause special difficulties, a similar fate seems likely for at least some of the other areas Labour wants to tackle. To bind both wings of the party together, it has tried to provide firm details of only its most modest proposals (that will avoid accusations of profligacy) while referring in much vaguer terms to more radical long-term aims (that is supposed to keep its left-wingers happy).

An example of this approach is Labour's document on social security and tax reform. The only policies to which it will commit a Labour government in the short term—higher child benefit and pensions, and the extension of supplementary benefit to the long-term unemployed—can all, it claims, be paid for out of the £3.6 billion a year it aims to raise from higher taxes on the top 5% of incomes. It reckons it could raise another £700m if it extended national-insurance contributions to unearned income. Further plans for higher spending are included in the document as possibilities if the money was available.

The trouble with this approach is that it allows left-wing troublemakers to concentrate on the bits of the policy least likely to become reality. To the fury of the shadow chancellor, Mr Roy Hattersley, an incomplete version of the social-security document, without any costings, was leaked to the press. If Labour does win the next election, its left wing may try to hold the party's leaders to the promises they think they have not really made. This is all the more worrying since the next parliamentary intake of Labour MPs looks certain to be to the left of the current bunch.

In devising palatable policies, the Liberal/SDP Alliance has an advantage over Labour: a shorter history. This has allowed it to publish a succinct consultative paper dealing briskly with the whole gamut of policies which might go into its manifesto, from Northern Ireland to immigration. In spite of its difficulties on defence policy, the Alliance can strike an unequivocal note on most of the issues that are causing Labour the greatest trouble. Many Labour politicians would love to describe the Wapping dispute as "a bitter, violent confrontation between an

unscrupulous management and a reactionary trade union." But they cannot; their party is too closely involved, through its trade union links, in the Wapping dispute to mention it at all.

Television spectaculars

The numbers game

When it comes to royal weddings, even the viewing figures are magical. According to the BBC, between 300m and 400m people will have gathered round television sets to see Prince Andrew marry Miss Sarah Ferguson. The television industry freely quotes immense figures for the viewing of spectaculars: such figures

All-time greats

Claimed television audiences	(millions of viewers)
1984 23rd Olympic Games	2,500
1985 Live Aid	2,000*
1981 Wedding of Prince Charles & Lady Diana Spencer	750
1969 First moon landing	720
1973 Wedding of Princess Anne & Capt Mark Phillips	530
1969 Investiture of Prince Charles	500
1986 World Cup Final	500
1982 World Cup Final	450

Source: various industry estimates. *including 1,500m watching 'live'.

exaggerate television's global reach.

According to the "Guinness Book of Records", the "projected" number of viewers for the 23rd Olympic Games in Los Angeles was 2.5 billion. This is more than half of the world's population. Bear in mind that a fifth of that world population is in China, where there are 100 people per television set, and a sixth is in India, where there are more than 300 people per set. Estimates by the Broadcasting Research Unit in London suggest that not more than 450m homes in the world have access to a television. At least 85m of those sets are in Russia, where the Olympics were not shown.

Viewing figures become exaggerated several ways. First, Chinese whippers: what starts off as a potential audience figure—the number of people who could

The grand young Duke of York



A princely marriage, which Bagehot called the "brilliant edition of a universal fact", able to "sweeten politics by the seasonable addition of nice and pretty events", seemed to face a daunting Wednesday in which to perform the latter task. The weatherman forecast real clouds darker than the imaginary constitutional clouds which the newspapers had talked about all week, the wedding ode showed that the Queen's new poet laureate was as incompetent as her press advisers (better give both jobs to Bob Geldof?), there was no public holiday and this was expected to reduce the singing crowds along the route.

Then the sun shone, love and youthful laughter rode in an open carriage down the Mall, and the old pageantry again produced magnificence and happiness and friendliness all round. Britons do still behave more like a family when the royal family comes along, even though they can now behave appallingly at many times else. If the country had been a republic under a President Thatcher, more bystanders might have thrown tomatoes than rose petals at her son's wedding. Only royalty can now uncontentionally and unridiculously parade in pomp, and pomp is an important part of any mature people's enjoyment.

watch a programme if every set in each country taking the programme were tuned to it—somehow becomes an estimate of the number of people who actually saw it. The Goodwill Games, for example, which ended in Moscow last week, were zipped around the world's satellites by Turner Broadcasting in association with Russia's Gosteleradio, and were—in theory—available to at least 1.5 billion people. But nobody thinks that anything like that number watched them.

Many countries have no reliable ratings

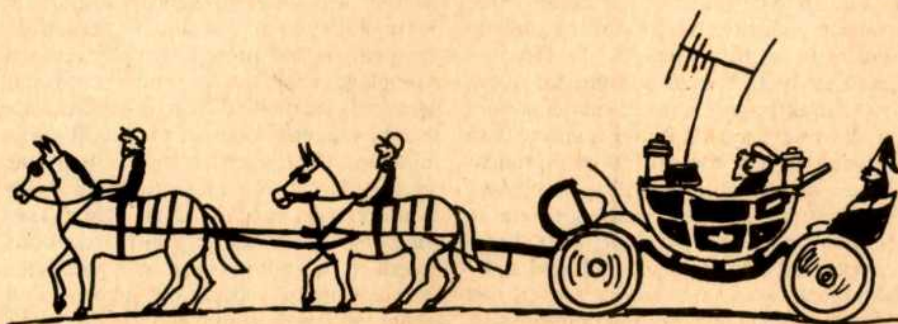
system. Even America's is rather primitive, using figures based on crude measurement of only about 1,700 homes. Even when ratings are collected for a television spectacular, they are rarely collated for one continent, let alone the world.

Sport and British royalty are the two reliable deliverers of large international audiences. But it will probably be some time before the number of television sets grows enough to provide a genuine one billion audience. The coronation of Prince Charles in, say, 10-20 years' time might be a good bet.

The rates

A better madhouse

Most ratepayers should see their bills virtually unchanged next spring. So said the environment secretary, Mr Nicholas Ridley, announcing his plans for distributing central money next year to local



BRITAIN

government. Less predictably, he may be right.

Here, in the official version, is how. Mr Ridley says he will hand out £12.85 billion to English councils for 1987-88, up from £11.76 billion for 1986-87. He reckons their "relevant" spending will rise from the £26.6 billion that they budget for this year to £27.7 billion. Increase, both sides of the book: £1.1 billion. So the money that councils raise themselves need not rise at all. Hey presto.

The reality is more complex. Almost certainly, Mr Ridley will not hand out all the money he promises. In the current year, "overspending"—Whitehall's view of it—means that, between them, the councils (and joint boards born when the metropolitan counties were abolished) will lose over £600m in grant due from Whitehall. But this money will eventually be redistributed among them; even the wilder spenders, who forfeited a large proportion of it, will get some back. In contrast, next year the Treasury will hang on to any grant forfeited this way. So the extra hand-out may be well under £1.1 billion. Can Mr Ridley still be right? Maybe, for several reasons.

First, and admirably, he has at last brought his department's figuring about local finance half-way into the real world. Instead of working with pious-hope spending figures, and a fantasy rate of inflation, he has started with real budgets (£26.6 billion) and then applied inflation of almost 4%. That may prove less than councils need to keep services going at their present level, because much of their cash goes on fast-rising wages; but the gap is a lot smaller than the one that Mr Kenneth Baker fell into last year.

This attack of reality seems to be infecting even the Treasury. Until now, its public-spending white papers have pretended that council spending remains unchanged from one year to the next. The 1987 paper will give a forecast that might be nearly fact instead of wholly nonsense.



Whipped into line

Almost by accident, the House of Commons has decided that corporal punishment will be illegal in British state schools after August 1987. By a single vote, the House passed a clause of the education bill which makes teachers who cane pupils in state schools liable to charges of battery.

Labour issued a three-line whip to vote in favour; but the Tory party allowed its MPs to vote freely, evidently thinking that caning is more a matter of conscience than Sunday trading is. The prime minister, a firm believer in the rod, was dining with Mrs Nancy Reagan at the time.

Most Tory ministers were relieved by the outcome. Had the clause been defeated, the government would have been put in the invidious position of trying to devise a way to let some parents opt out: beating children against the wishes of the parents was outlawed by a ruling of the European Court of Human Rights on a

Scottish case in 1982.

The Society of Teachers Opposed to Physical Punishment (STOPP) has been campaigning vociferously for several years. Its enterprising secretary, Mr Martin Rosenbaum, wrote a month ago to a thousand parents whose children had been beaten to suggest that they should lobby their MPs to vote against corporal punishment. A few hours before the vote, STOPP gave a report to the *London Standard* of the case of a 13-year-old boy who had been caned by a grammar school headmaster for failing to get good marks in an exam, which was printed with a large photograph of the boy's bruised bottom. Previously, says Mr Rosenbaum, newspapers had been unwilling to print such pictures for fear that they would distress their readers.

The abolition of the legal defence leaves teachers in private schools in a curious position. They may still beat pupils whose parents pay their fees, but not those whose fees are state-subsidised. As for Britain's 125 local education authorities, a number—STOPP says 33—have already instructed teachers not to cane their pupils. Most Scottish schools, where teachers once wielded the terrifying leather tawse, have now stopped. But among the 92 local education authorities which still allow corporal punishment are 84 which allow it for children under 12, 77 which allow it for handicapped children, and 60 which allow male teachers to beat girl pupils. Abolition will at least bring schools into line with borstals and prisons, where corporal punishment was abolished in 1967.



Spare the rod and spoil the fun?

Second, starting from a truism estimate of local spending, Mr Ridley will provide a larger proportion of it: 46.4%, he says, and even the outturn (45%?) should be better than this year's likely 44%.

Third, part of that £600m redistributed this year will still be in council pockets next spring. Few councils made allowance for it in their rate-fixing; the surprisingly large total, let alone the distribution of it, was not known in time. Some councils rushed gaily out to spend once they learned. Many had more sense.

Fourth, Mr Ridley will "ratecap" nine further councils, on top of 11 already caught (a twelfth, Liverpool no less, has been let off). The 20 account for about 10% of all English council spending. Not at all by the way, Mr Ridley is also to curb evasion of his controls. Some councils have arranged "deferred purchase" schemes in the City, enabling them to borrow now and repay years later. From now on, this spending will be totted up by Whitehall when the works are carried out, not when payments fall due.

Still, not all is joy for ratepayers. Many councils managed to keep their rate rises down even to this year's high figures only by raiding the piggy bank, and may prefer to rebuild balances rather than restrain rates. Londoners will see no repeat of the generous Whitehall handout that gave many of them rate cuts this year. Everywhere local councils captured by Labour last May will want to spend.

Meantime, the deeper issues of local finance remain untouched. The government's plans for a revolutionary new system are years away. Until then, in spite of the touch of reality Mr Ridley has brought to the present one, it remains complex, centralised, often arbitrary, generally inefficient. Need it be? Mr John Banham is controller of the Audit Commission, which oversees its results. In the current *Lloyds Bank Review*, he proposes some drastic reforms. Look at the chart (left) he backs them with. If anybody needs to be kept in check by Kafkaesque mechanisms of distribution and control, is it the town and county halls?

BUSINESS THIS WEEK

The IMF and **Mexico** agreed on the first phase of a \$10 billion recovery plan to cover the next 18 months. It includes growth-boosting conditions, and an arrangement to cover further drops in the oil price. But it depends on commercial banks coming up with \$5 billion-7 billion of the cash.

The French government fired 12 out of its 24 heads of **nationalised industries**—including the bosses of CGE, Rhône-Poulenc, Pechiney, Société Générale and Crédit Lyonnais.

Oil prices weakened again. Analysts started predicting prices of \$6-8 a barrel, barring agreement at the OPEC meeting in Geneva.

Dart Group raised its bid for **Safeway**, America's largest food group, by \$360m to \$3.9 billion.

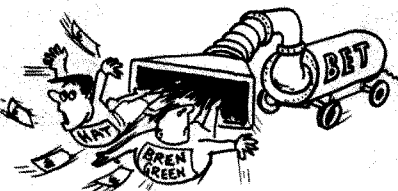
The flotation of Britain's **Trustee Savings Bank** will go ahead in September. The bank hopes it will raise £1 billion—and attract 1m or more shareholders.

Japanese cars took a record 11.8% of the European market in the first half of this year.

General Motors and Deere, the American agricultural equipment company, will combine their diesel engine operations. The partnership expects to generate annual sales of \$1.5 billion.

Hanson Trust is to sell £190m-worth of recently-acquired **Imperial Group's** hotel and restaurant business to Trusthouse Forte.

The West German chemicals group BASF is discussing a joint venture to sell computers with **Siemens**.



BET, the British industrial-services group, is to bid a total of £127m for HAT group and Brengreen Holdings, active in the cleaning and scaffolding businesses.

America and **South Korea** settled trade disputes about patents, trademarks and copyrights. South Korea will open its markets to American insurance companies.

The EEC reached a compromise agreement on quotas for imports of **New Zealand butter** after Ireland lifted its veto.

New Zealand is issuing \$500m of floating-rate notes in the Eurobond market on the finest terms yet achieved by a sovereign borrower.

Romania and its commercial bank

creditors agreed on a new timetable for repaying \$880m of its \$6.6 billion foreign debt.

Federal Reserve Board chairman **Paul Volcker** moaned that Japan and West Germany were not co-ordinating economic policy with America. The dollar slid to new lows.

The British money-market dealer **Union Discount** reversed an earlier decision to become a market-maker in British government bonds come the Big Bang.

Russia admitted that the Chernobyl disaster caused \$2.8 billion of damage and 28 deaths.

Italy's biggest-ever privatisation—the sale of the SME food business to Carlo de Benedetti's **Buitoni**—was blocked by a court.

Union Carbide is looking for a buyer for its agricultural division—maker of pesticides involved in the Bhopal accident.

America and Japan inched closer to a settlement of their **semiconductor** trade dispute. The European Commission says it intends to continue with its own anti-dumping action against Japan.

Economic and financial indicators are on pages 93-94.

Corporate scorecard

Company	Period	Net profit \$m*	% change on comp period**	Sales \$m*	% change on comp period**	Comment
AECI	H Jun 30	47†	+58	600	+21	South Africa's big chemicals group boosted sales and profits, after five years of flat demand.
Amoco	H Jun 30	569	-47	10,900	-24	Profits in the oil group's refining and marketing operation could not offset the effect of falling oil prices.
Asda-MFI	Y Apr 30	233†	+5	3,520	+11	The British retailer is pinning hopes for further growth on its own-label goods.
Exxon	H Jun 30	3,070	+20	40,220	-13	The oil giant said that improved margins on oil product sales helped cushion the impact of falling oil prices.
Italtel	H Jun 30	25†	+135	390	+7	The Italian telecoms group's restructuring has reduced its workforce by 10,000 to 19,000 since 1980.
Merrill Lynch	H Jun 30	178	+44	—	—	The leading American securities firm continued its recovery with a 35% rise in second-quarter net income.
Nissan Motor	Y Mar 31	161	-56	20,930	nil	Japan's second biggest car producer increased its European sales but performed poorly overall.
Northern Telecom	H Jun 30	83	-20	1,460	-2	The Canadian telecoms group has suffered from lower sales (of telephone exchanges) in the American market, but expects a revival later in the year.

Y = Year ended. H = Half-year ended. *Converted at average exchange rates. **Based on local currency figures. † = Pre-tax profit.



Consolidated Highlights at March 31, 1986

*(Dollars in millions *)*

Total assets	17,544
Assets under management	14,067
Net income	397
Shareholders' equity	1,847
Allowances for losses	428

* Values expressed in US dollars adopting the lira-dollar exchange rate of end March 1986 (Italian lira 1,580.75/US \$ 1.00).

The Meeting of the Shareholders' of Istituto Mobiliare Italiano (IMI), held in Rome on July 9, 1986, approved a transfer of reserves to equity for an amount of **400 billion Lire**. As

a result of the Shareholders' decisions and of the July 1st capital increase, the equity structure of IMI and of the IMI Group can be summarized as follows:

*(Dollars in millions *)*

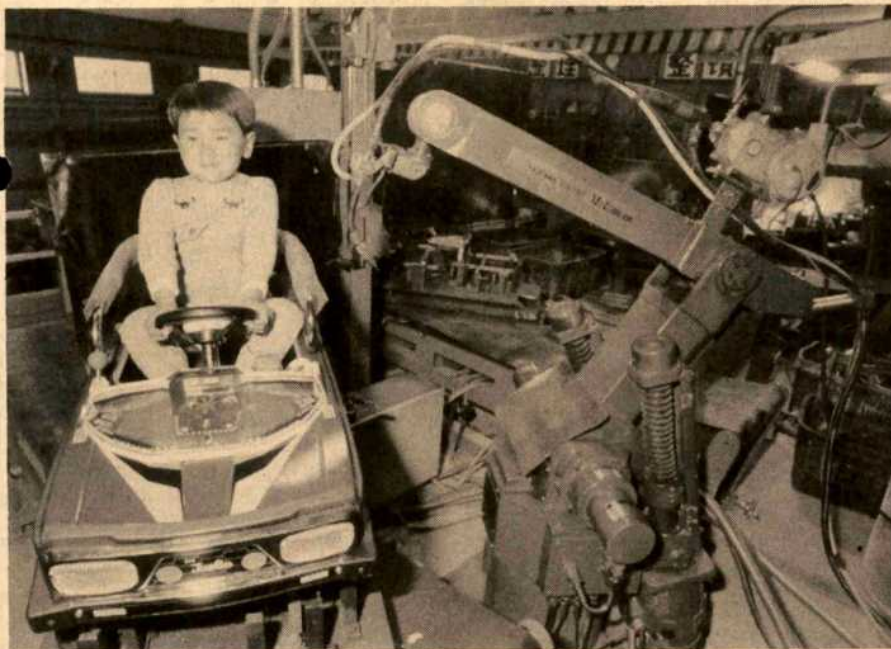
Capital	1,044
Statutory and other reserves	932
Shareholders' equity	1,976
Allowances for losses	428
Total	2,404

ISTITUTO MOBILIARE ITALIANO

Public Law Credit Institute
Head Office in Rome

WORLD BUSINESS

Wanted: new jobs for sad robots



Robot's playtime

If robots are taking over where men once worked (as union leaders fear), then surely the men who make the robots must be doing good business? They aren't.

Instead of big sales, the machines have chalked up big losses. Growth in the American robot market has slowed to a snail's pace. Companies are still struggling to find the formula that will transform today's rusty tin men into gleaming knights. Latest to try is Japan's Toshiba, which this week signed a robot-marketing joint venture with West Germany's Messerschmitt-Bölkow-Blohm (MBB).

Number of industrial robots . . .

. . . in:	end 1984
Japan	67,300
United States	14,500
West Germany	6,600
France	3,380
Italy	2,700
Britain	2,623
Sweden	2,400
Belgium	859
Canada	700
Spain	516

Source: Japan Industrial Robot Association

Eager to diversify from its roots in aerospace, MBB will market Toshiba's robots in West Germany, Switzerland and Austria. Japanese robots have gone down relatively well in West Germany's engineering industry. Sales grew by around 50% last year, to 541 (including the unprogrammable pick-and-place machines which only Japanese statisticians count as robots). But competition for robot sales everywhere is tough, especially in the large American robot market where a lot of apparently well-laid plans have recently gone badly wrong.

In 1985, Americans spent about \$595m on robots and the software needed to make them work—about half as much again as they spent in 1984. This year, stockbrokers Prudential Bache expect robot sales to grow by only about 5%, to \$625m. Because many robot companies were suffering even during last year's boom, the slowdown will hurt.

Some of the saddest faces are at the electrical giant Westinghouse. In 1983, Westinghouse paid \$107m for Unimation,

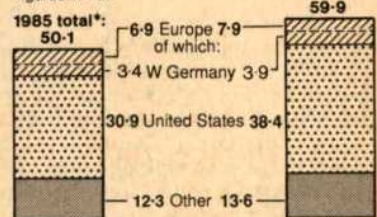
then the world's leading robot maker. Unimation has disintegrated in Westinghouse's hands. Its share of the American robot market has shrunk from nearly a third in 1982 to less than one-tenth today, and its place in the American robot-makers' league has slipped from first to fourth. Westinghouse has invested heavily to beef up the Unimation robots, but so far it has little to show for its effort and money.

General Electric has fared little better. In 1980, GE predicted that, by 1990, it would hold around a fifth of a factory-automation market worth \$25 billion a year. Instead, it has chalked up losses of over \$120m, and it still does not even rank among America's top ten robot companies.

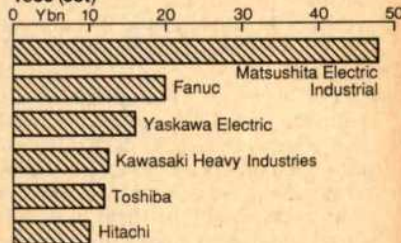
New migrant workers

Japanese industrial robot exports to:

Figures in Ybn



Top six industrial robot makers' production, 1986 (est)



Source: Japan Industrial Robot Association • Years ending March 31st

Most embarrassing of all, success in robot markets has proved little more profitable than failure. The second-ranking and third-ranking firms in the American robot market—machine-tool maker Cincinnati Milacron and Sweden's ASEA—are not much richer for all their years of robot production. The firm now making most money out of the American robot market is GMF Robotics, a joint venture between the American carmaker General Motors and the big Japanese robot company Fanuc. And GMF Robotics made only \$10m on sales of \$187m in

WORLD BUSINESS

1985. Around two-thirds of those sales went to GM itself, and this year GM has cancelled about \$80m-worth of its robot orders.

The robot makers' problem is that selling automata is not as simple as winding them up in the morning and sending them out to do a real person's work. They require complex software to do even the simplest tasks. And robots must be taught to communicate with the other machines working beside them on the shop floor. Creating that software and those communication links is expensive. So are the service people needed to ensure that they keep working.

So far, carmakers have been by far the best buyers of industrial robots. For them, the cost of robots forms only a small part of the price of a new production line. Because the whole line is usually built at once, car firms have an easier job ensuring that the robots will talk to their fellow machines than companies that have to integrate the creatures with existing equipment.

Painting, welding and all the other jobs on car production lines can employ a lot

of robots. GM alone plans to install some 20,000 by 1990. But the really big markets for robots should lie elsewhere: in "assembly" tasks like putting circuit boards into computers, assembling electric motors or packing chocolates in boxes. Until now, demand for such assembly-robots has lagged well behind robot makers' expectations.

One of the dampers on demand for assembly-robots is now being lifted. Led by GM, robot consumers have created standard communications protocols, called MAP, which should ensure that any manufacturer's robots can work side-by-side with any other's. But equally galling problems remain. Market analysts had expected the first big wave of assembly-robot orders to come from the electronics industry—which has lots of the repetitive kind of work that robots can do, and enough technical expertise to teach the machines how to do it. But stagnation in electronics and computer markets has forced manufacturers to cut their previous investment plans. And IBM, which has been installing robots regardless, has been building its own.

Multi-Fibre Arrangement

Tit for GATT

GENEVA

"Temporary" protection from cheap imports for the West's textile industries has now lingered for at least a quarter of a century, formalised in the arrangement on cotton textiles of 1961 and reinforced by its successor, the Multi-Fibre Arrangement (MFA). Negotiators from more than 50 countries are now in Geneva haggling over a fourth extension to the MFA, probably for another five years, to replace the present agreement which expires on July 31st. They are not talking, as they should be, about a return of the \$100 billion-a-year world textiles trade to the fair-trade rules of the General Agreement on Tariffs and Trade (GATT).

Several months ago, developing countries dropped their demands for an immediate end to the MFA. Too many preferred the security of the restrictions they know to the free-for-all they don't. But they want a less restrictive MFA and the prom-

By the dozen, quick march

PARIS

According to the French Ministry of Finance, the sole test for deciding which bosses of France's state-run firms to keep or ditch in advance of privatisation was competence. It should have added politics. The draft pink slip submitted for the president's approval at the meeting of ministers on July 23rd was a mixture of fair judgment and score-settling. Mr Jacques Chirac, the prime minister, is keeping 12 chiefs of the 24 main enterprises on his privatisation list and sacking the rest.

The need for this purge is unexplained, unless, as seems improbable, the government intends to sell off a dozen companies in one go. Most of those fired have been at their jobs barely four years. Many of them have turned their companies round and are doing well.

Heads roll at both of France's big state-owned investment banks. The well-regarded **Mr Jean-Yves Haberer**, a direc-

tor of the Treasury under the Socialists, is out of Paribas. Mr Michel François-Poncet, who has soldiered in the bank for 25 years, will take over. At the Suez financial group, **Mr Jean Peyrelevade** will leave his desk to an ex-head of the Bank of France, Mr Renaud de la Genière.

Among the big industrial groups, good management of Rhône-Poulenc, France's chemicals giant, did not save **Mr Loïc le Floch-Prigent**, a favourite of the Socialists. His place will be taken by Mr Jean-René Fourtou, a businessman close to the former president, Mr Valéry Giscard d'Estaing. Nor has **Mr George Pébèreau's** talent for international deal-making protected his seat at the head of CGE, France's biggest telecoms and electronics company. The new man there, Mr Pierre Suard, is friendly to Mr Chirac's party. **Mr Bernard Pache** is to make way as chairman of Pechiney, the special-metals group, for Mr Jean Gandois,

an ex-head of Rhône-Poulenc who left when it was nationalised in 1982.

By contrast, an ally of the Socialists, **Mr Alain Gomez**, stays as boss of Thomson, another big telecoms group. **Mr Jean-Louis Beffa** remains atop the glass group Saint-Gobain and **Mr Jacques Stern** stays at the troubled computer company Bull.

Two go and one stays at the three big state-owned commercial banks. At the biggest, Banque Nationale de Paris, **Mr René Thomas** is safe for the time being. **Mr Jean Deflassieux**, a banker and a Socialist, leaves Crédit Lyonnais and is replaced by Mr Jean-Maxime Levêque. The number two man at Société Générale, Mr Marc Viénot, replaces **Mr Jacques Mayoux**.

One goes and two stay at the three big state-owned insurance companies. **Mr Bernard Attali**, a brother of President Mitterrand's close adviser Jacques Attali, is to leave as head of GAN. His place will be taken by Mr François Heilbronner, who was an economic adviser for many years to Mr Chirac.

How long any of the state-company bosses stay now partly depends on which companies the government is intending to sell off first. The guess has been that it would start with one of the two investment banks and a healthy industrial group in the autumn. The row over the signing of the executive decree on privatisation may not, after all, have delayed the government's plans by much. The decree was swiftly turned into a bill, which the government is hoping to put through the national assembly by the end of the month.



Thomas and Gomez stay ...



... Peyrelevade and Pébèreau go



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A quarterly information service
on money matters from Britain's
biggest international bank.

BARCLAYS

Briefing

Robert Sale, a deputy chief general manager of Barclays Bank,
discusses the bank's role in

HELPING SMALL FIRMS SUCCEED

Small firms are crucial to Britain's economic future. They are the seedcorn for the industries of the future, providing a breeding ground for entrepreneurial talent and new ideas which can often be developed more effectively in the context of a small organisation. Flexibility of response and the ability to adapt more rapidly than big companies to a changing business environment are among the reasons why the government has made such efforts in recent years to nurture this sector of the economy.

The important role small firms have to play in helping to tackle the unemployment problem is another reason. A recent study by the Small Business Research Trust suggested that small companies had created between 800,000 and 1.1 million new jobs over the past six years. An estimated 200,000 of these jobs were created by new businesses.

The clearing banks with their large branch networks are ideally placed to help small businesses and Barclays Bank serves a bigger share of this market than any of its competitors. It is an area we have long recognised as important.

The vast majority of our business customers are in fact small businesses. More than nine out of every ten business customers fall into the category of small to medium-sized businesses, partnerships and sole traders.

Barclays has lent £8 billion to businesses with a turnover of under £1 million a year, one third of which has been advanced to the smaller end of the market or businesses turning over less than £100,000 a year.

But lending is only part of the picture.

Because of our commitment to the small business market we have a vested interest in helping our smaller business customers to succeed. To this end we provide not only a range of financial products tailored to meet the requirements of small firms but, more importantly, advice and assistance in financial management through our branches and our Business Advisory Service (BAS).

The Business Advisory Service is a roving financial consultancy service which operates alongside our branch network. It was set up in 1971 and now operates from 30 centres throughout the country. Some 400 Barclays managers have passed through our intensive BAS training schemes, which involve spending time with businesses to see the problems from the other side. We have more specially trained small business advisers than any other bank.

Over the past decade the BAS has carried out more than 23,000 consultancy assignments for smaller companies. This wealth of experience has not only given us a sharper insight into the problems small businesses face, but has also influenced the way we train our staff.

(CONTINUED ON PAGE 4)



ROBERT SALE



That Barclays takes small business seriously is evident from its one million small customer base and its £8 billion investment in this sector to date, two-thirds of which has gone into companies with a turnover of less than £1m p.a. Since the bank established its *Business Advisory Service* (BAS) in 1971, it has trained a team of 400 highly-professional business specialists who are available for secondment to small firms for 2/5 days. During this time they can help cost and price their projects for them, advising on budgeting, cashflow forecasts, capital investment appraisal, assessment management and book-keeping. This is an ongoing programme and both the *Business Advisory Service* and the *Small Business Unit* of the bank offer advice on the financial and non-financial aspects of starting and running a small business.

TRADING FINANCE

The bank's provision of short-term, day-to-day trading finance – additional to overdraft facilities – includes 'tailored' loans for working capital and/or asset purchases.

A feature of Barclays' commitment to the small-business sector is its support, through the government's *Small Firms Loan Guarantee Scheme*, to both existing and viable new businesses with potential but, without security or a track record, and unable therefore to raise medium-term loans on normal commercial terms. There is also a Barclays' fixed-rate *Standard Businessloan* for asset purchases between £2,000 and £15,000 over 1/5 years, and, for working capital and fixed-asset purchase above £15,000, a new 1/20 year *Flexible Businessloan*. For farmers, there is also a *Barclays Agricultural Mortgage* and, in conjunction with Highland Leasing, an unsecured *Farm Masterloan* for inputs (seeds, fertilizers, feeds etc) with an 18-month maximum repayment period for sums over £1,000. The bank owns Highland Leasing through its subsidiary, *Mercantile Credit*, which also offers leasing and contract-hire facilities for property development, investment finance, commercial business purchases and retail businesses.

A *Smaller Businessloan Scheme* is available to those small and medium-sized businesses advised by the *Council for Small Industries in Rural Areas*

(COSIRA), who wish to purchase or improve capital assets such as land, buildings, plant, machinery and working capital.

European Commission job-creation loans – at heavily subsidised interest rates – are available to small/medium sized projects (for the creation of employment in areas stricken by redundancy in the coal and steel industries) on 50% of the capital-investment costs of projects.

For business travel and entertainment expenditure nationally or internationally, the bank operates a *Company Barclaycard*.

SAVINGS

The bank has also launched a high-interest *Business Premium Account* for sums of surplus cash between £5,000 and £250,000 that offers businesses the best of both worlds: a highly-competitive rate of interest and instant access without penalty.

FRANCHISING

Barclays' belief that franchising is a dynamic form of business expansion is well demonstrated by its £25 million investment in this sector where the bank is committed to an innovative programme of continuing support for new products and services.

Potential businessmen are able to use established know-how and operationally proven systems to set up their own businesses. The bank has an impressive record of 'tailoring' finance schemes for franchisees of a number of notable franchisors including, Holland & Barratt, Body Shop, Prontaprint and Wimpy.

INTERNATIONAL

Barclays assists small-to-medium sized companies in the electronic transmission of receipts and payments overseas. Customers conducting international business can have foreign-currency deposit and/or current accounts. They can also borrow in foreign currencies.

The bank can help customers to make the right choice of documentation which varies according to the markets in which exporters and importers are involved. Because the bank has extensive knowledge

TAKING SMALL BU

BARCLAYS

Briefing

of international markets, it can advise not only when opportunities arise, but also recommend steps to overcome foreign trading peculiarities. A **Trade Development Service** exists to assist UK companies in locating trading partners and outlets overseas, by means of a free basic service and a more comprehensive fee-paying premier service.

For the smaller business, with an annual export turnover of £2 million or less, the bank's **Smaller Exports Scheme** offers 100% loan finance against the presentation of export documentation. Essentially non-recourse, it is designed to ease demands on cashflow while providing protection against commercial and political risks without the necessity of exporters having to take out their own insurance policies to arrange finance themselves. This facility is in increasing demand.

Barclays Export Finance House operates a wholly-owned Confirming House of the bank which issues medium-term (2/5 year) **Supplier Credits** (for the sale of capital equipment) at fixed and officially supported rates of interest. It also provides manufacturers who do not have their own credit-insurance with Barclays insurance policies for short and medium term export finance.

A **Countertrade Unit** advises exporters on the complexities of countertrade, including the: meaning, terminology and ramifications of countertrade; laws, regulations and practices of countries employing countertrade; construction and interpretation of the required documentation; search for products and end-users; use of countertrade as a marketing weapon.

For discounting bills without recourse to the supplier, Barclays offers small company exporters a **Forfaiting** service, whereby the bank takes over the debt on the overseas buyer by purchasing bills of exchange or promissory notes which have been signed by the buyer and guaranteed by his bank. All the exporter has to do – for deals of £50,000 to £100,000 and above – is ask Barclays whether the country and bank in question are acceptable risks and what credit periods (from 90 days and up to three years) are reasonable. The bank will also give a written undertaking to buy bills in advance at a fixed discount.

MONEY TRANSFER

Electronic banking is rapidly becoming available to

small businesses, enabling them to simplify their financial affairs and conduct them with greater speed and efficiency. The bank operates numerous money-transfer services, not the least of which is **Barclays Payflow**, an automated payments system enabling the customer to telephone payment details to an approved bureau for same-day settlement and thereby eliminate the need to issue cheques or originate paper credits. While **Payflow** was originally devised for salaries, it can also be used for trade settlements. Other automatic transfer services are available for cheque reconciliation, bulk-credit clearing, direct debits, standing orders and same-day-value funds transfer.

INSURANCE

The bank offers a comprehensive range of insurance services to cater for the needs of the modern businessman including, of course, the small businessman. Whether it is credit insurance protection against the risk of bad debts, special life assurance schemes or 'all risks' policies for the protection of property and/or business interruption, Barclays **Financial Services Division** has the answer.

INVESTMENT AND PENSIONS

Chief among the investment and pension schemes that the bank is able to offer business executives, not least small business executives, is the **Executive Pension Plan**. This unit-linked, employer-sponsored individual pension arrangement is considered to be particularly suitable for the directors of small companies as well as key employees.

Other schemes on offer include a self-administered **Private Company Directors Pension Plan** for the controlling directors of private companies (which can include property purchase for use by the company), personal pension plans for the self-employed and those in non-pensionable employment, and loan facilities for the self-employed. Whatever the investment and pension needs of small companies and their personnel, the bank is increasingly able to assist.

Further information is available from any UK branch of Barclays Bank.

DO BUSINESS SERIOUSLY.



(CONTINUED FROM PAGE 1)

BARCLAYS Briefing

HELPING SMALL FIRMS SUCCEED

Our experience through the BAS has shown us that financial management is often the Achilles heel of small firms. Failure to monitor and predict cash flow – the movement of money in and out of a business – is one of the commonest reasons for failure. Businesses can run out of cash even when they appear to be running smoothly and making profits. Often the entrepreneur with the fresh idea and the know-how to produce and market his products will simply not have the time to set up the financial controls his business needs.

To plug this gap our BAS managers will spend several days with a customer, analysing the financial controls, advising on matters such as pricing, cashflow forecasting and book-keeping, and helping to devise simple and effective systems. They will also help arrange, where necessary, the type of finance a business may need from its local branch.

Following the visit, customers receive a written report highlighting the problems and giving recommendations on how to tackle them. There is no charge at all for Barclays' customers, although there may be a small fee if a second visit is required. We also provide the BAS service free to non-customers if they move their banking business to Barclays; otherwise we make a charge to cover our costs.

An important part of our strategy in recent years has been to make our branch network more responsive to the needs of business customers of all sizes. This has involved putting more trained business experts into the branches and ensuring that business customers are

able to bank with a branch which has the know-how to handle their needs.

For smaller companies and businesses we ensure that they bank with a local branch staffed with the level of expertise they need. Sometimes businesses outgrow their local branch and may be better served by moving to a bigger branch in the same area.

The British government's attempts to remove much of the red tape and the regulatory burdens that have traditionally hindered small businesses are welcomed by the small business sector which is now awaiting the outcome of the employment secretary's deregulation white paper, *Building Business, Not Barriers*.

In the belief that government initiatives of this kind place an obligation on the financial community to simplify and improve its own procedures, Barclays has streamlined its services to the small business sector to avoid unnecessary complications. Its numerous professional skills and facilities are designed to make life easier for such businesses.

While all Britain's major high street banks are familiar with the problems of the small businessman, whether he is self-employed or running a small company, only Barclays has 15 years experience of seeing small business from the inside through its Business Advisory Service.

By extending that experience to its training of all management, the bank now has a branch network unequalled in its ability to understand and serve the small business sector. ♡

BARCLAYS JOB CREATION INITIATIVES

Barclays' £170,000 sponsorship of the Open University's home-study, distance learning course, *Start Up* – which assists those who wish to start their own businesses – is a reflection of the bank's positive approach to its social responsibility in the small business sector. So, too, is its secondment of members of staff to the government's job-creation *Enterprise Agencies* and to *Business in the Community*, an organisation formed to promote local job-creation initiatives. The bank provides financial support to more than 100 *Enterprise Agencies* in the UK and, currently, it has 37 secondees engaged in job-creation initiatives.

Anyone wishing to develop a business idea with a friend, group, colleague or member of their family can learn about starting up a new business by studying,

with *Start Up*, at home (with a do-it-yourself, distance-learning kit comprising BBC video, audio tapes and guide books) in consultation with a personal business advisor during the nine-month duration of the course.

A panel of specialists advises on the key elements of the start-up plans (finance, marketing and production) and revolving home-study courses start at two-monthly intervals throughout the year.

At a time when the British government is improving the incentives and environment for small business enterprise, this home-study *Start Up* sponsorship is particularly apt. Figures from the government's annual labour force surveys in the *Employment Gazette* show that, in 1984, 2.6 million people (or 11.2% of all employment) were among the self-employed.

ise that it will be phased out, preferably on a fixed timetable.

That is unlikely if the Americans get their way. Alarmed by rising imports, a bellicose election-minded Congress is demanding a tough deal. President Reagan rightly vetoed the Jenkins bill, which sought to slash textile imports from developing countries; but Mr Charles Carlisle, the chief American textiles negotiator in Geneva, says everybody should be frightened lest the August 6th vote in Congress overrides that veto. Mr Carlisle has played that card with some success already, securing stringent new bilateral deals with two of the "big three" suppliers to the American market—Hongkong and Taiwan. Talks with the third, South Korea, are still going on.

The third-world exporters have cards of their own. At the meeting of trade ministers due to start in Punta del Este, Uruguay, on September 15th, the United States and its western allies are hoping to launch a "new round" of global negotiations about liberalising trade in services, safeguarding intellectual property and easing restrictions on direct investment. At preliminary GATT negotiations on the new round's agenda, developing countries have stressed that their consideration of these so-called new issues will depend on the easing of controls on textiles as a token of good faith.

Textiles account for 10% of all world trade in manufactured goods and 25% of manufactured exports from the third world. Third-world exporters say with justification that massive investment (and job shedding) in the industry in America and Europe have made western firms well able to hold their own with low-wage labour-intensive producers. American imports of MFA fibres rose by 8% last



year, but nearly half the increase came from a 27% jump in deliveries from Western Europe. Imports from developing countries rose by only 3%. Europe's relatively unfettered Mediterranean exporters—Spain, Portugal and Greece—have wages lower than those in several third-world countries.

The European Community sees some force in these arguments. It is happy to see some modest relaxation of the MFA. But the Community is cool about committing itself to phase it out altogether. Like America, it is insisting on retention of the much-abused "anti-surge" mechanism to block sudden import increases. It also wants a commitment from developing countries to open up their own markets to textile imports from the West. Free-market Singapore won extra concessions from the Community as a reward for opening its doors.

Differentiation between suppliers and insistence on reciprocity is disliked by the exporters. But they can live with it if the rich nations agree to moderate some other restrictions (eg, on children's clothing) and accept the principle of phasing out the agreement. The betting in Geneva is on a slightly less restrictive MFA, hidden behind some tough wording for US congressional consumption.

Brazil-US trade

Soft on software

SAO PAULO

Brazil wants to improve its trade relations with America before President Sarney visits Washington in September. Since last autumn, the Brazilian law on trading computers has been under investigation by the US trade representative, Mr Clayton Yeutter. If he decides it contains unfair trade practices, President Reagan

has plenty of scope for retaliation. In 1985, America bought over 25% of Brazil's exports. Brazil's steel, textiles and footwear industries, which all rely heavily on the American market, could be the first to suffer reprisals.

The Brazilian government will probably make concessions on software (which America wants to see subjected to international copyright law) while continuing to protect its hardware industry. The Sao Paulo supreme court recently ruled that international copyright law does apply to software sold in Brazil. Yet, even if this trade row ends up being safely defused, Brazil's nationalists are cooking up new ones. Trade restrictions on specialty chemicals, pharmaceuticals and biotechnology threaten to plunge the two countries back into dispute.

One pharmaceutical company, the local subsidiary of France's chemical giant Rhône Poulenc, has already suffered from nationalism. After it had spent \$8m on a plant to produce salicylic acid (the raw material for aspirin), the government vetoed the project because a Brazilian company had plans for a similar facility and the market was deemed to have room for only one manufacturer.

British car sales

Summer madness

Each August, Britons buy three times more new cars than the average for any other month. That is because August is when the prefix on the licence plate denoting a car's year of registration changes. Since Britons like to be seen to be driving a new car the day the prefix switches—it becomes "D" on August 1st—many delay their new-car purchases until then. So much so that last year 20% of the 1.8m new cars sold in Britain were bought in August.

This year's summer madness, however, looks like being the last. To smooth the bulge and to reduce the seasonal burden on the government's vehicle-licensing centre in Swansea, the (then) minister of transport, Mr Nicholas Ridley, decided earlier this year that as from 1987, the prefix will change in October which is traditionally a poor selling month.

Britain is alone in Europe in having a prefix denoting a car's year of registration. West Germany, France and Italy all have systems that show where a car was registered, but not when. The British government would like to abolish its system but is reluctant to do so because of opposition from the police, who think that prefixes help them identify stolen cars.

The trade is hopelessly split on what it



Loosening the fabric of the MFA

wants. The Society of Motor Manufacturers and Traders opted for October as the best compromise, while the Motor Agents Association, which represents the dealers, would prefer July or, better still, no change at all. The dealers fear that the change to October will upset the peak period for used-car sales.

Carmakers with factories in continental Europe prefer the present system: as sales in their European markets dwindle in the run-up to the August holiday period, they concentrate their production on right-hand-drive cars for Britain, thus helping to smooth their production schedules. Not so Rover, the only one of the big three carmakers in Britain (and the only one without big factories in Europe) to favour outright abolition of the prefix. To stock up for the August sales, it has to build up production in early spring—just as the big fleet buyers, who account for 65% of new cars sold in Britain, begin their annual purchases.

Sales of new cars in Britain look as though they will be only slightly down on last year's record of 1.8m, but few dealers (or manufacturers) are making much money at the moment. Discounts of up to

30% on big orders and the complicated system of manufacturers' bonuses for extra sales have sliced most dealers' margins on new cars to around 2%.

Analysts reckon that dealers with franchises from the volume carmakers will soon need annual sales of 500 cars or more to break even. With the new-car market in Britain growing at less than 3% a year, this implies that only half the 8,200 franchised outlets in business today (4% fewer than last year) will be trading in ten years time. Many are likely to be replaced by supermarkets trading on edge-of-town sites, where they have the space to display a wide choice of new and used cars.

First to do this is Asda/MFI, the furniture-to-food group. It now has four Asda Drive outlets, two in London and two elsewhere. So far, Asda has chosen to set up separate franchised dealerships (one each for Rover, Peugeot-Talbot, Fiat and Hyundai). But it may not be long before a manufacturer (possibly Rover) breaks with tradition and decides that selling direct to outlets such as supermarkets is a better way to sell volume cars than through franchised dealerships.

indeed, CGE (which may put it in the running for a share in the new CGE-ITT company). It has also enjoyed some success in the difficult American market and has just signed an agreement on co-operation with GTE, an American telecoms company.

The latest figures from Siemens and Bosch show why the two companies want to move into fresh fields. Siemens is suffering from a shortage of orders for power stations at one of its subsidiaries, Kraftwerk Union. In the first eight months of its current financial year, sales by the Munich company were 20% below the same period of the previous year, at DM29.5 billion (\$13.5 billion). Bosch says it expects to increase world sales by 3% this year, with profits about the same as the 1985 figure of DM402m—its profit 10% below the company's 1984 profit because of an unusually large provision to cover currency fluctuations.

The two companies are facing the prospect of fiercer competition from two other big West German electrical and electronics groups, AEG and Grundig, which are now under the respective ownership of Daimler-Benz and Philips. The obvious link-up of AEG electronics and Daimler's vehicle business is likely to mean even more competition for Bosch in supplying car and heavy-vehicle components.

Bosch faces less rivalry from Grundig. A Bosch subsidiary, Blaupunkt-Werke, has agreed to cooperate with Grundig on car radios and colour televisions. Siemens is also seeking to cooperate in electronics

West German electronics

Ne quittez pas

BONN AND PARIS

International competition and currency movements are upsetting the hitherto comfortable world of West Germany's giant manufacturers of electrical and electronic goods. Two of the biggest firms, Siemens and Robert Bosch, are focusing on telecommunications and are looking to form large European answers to Japanese and American competition.

Both are considering buying into French companies. Siemens is talking to the government in Paris about taking a stake in a state-owned French telephone equipment manufacturer, Compagnie Générale de Constructions Téléphoniques (CGCT). Bosch is mulling over whether to make a play for a minority stake in the telecoms empire that France's state-owned Compagnie Générale d'Electricité (CGE) is trying to put together.

CGE, which has 84% of the French telephone switching market (CGCT has the other 16%), is awaiting its government's approval of its purchase of the European telecoms business of the American company, ITT. Under the terms of the deal, the French company would get a 70% share of ITT's European telecoms assets, including the West German SEL, which has a third of West Germany's switching market.

As a counterweight to CGE-ITT, the

French industry minister, Mr Alain Madelin, has been trying to arrange a marriage of CGCT's telephone-switching business with Siemens, Ericsson, Northern Telecom or APT, a joint venture between AT&T and Philips. At the moment, Siemens is the favourite. But CGCT is no great prize. It has been in trouble for a decade. In 1976, it had 10,000 employees and an annual turnover of FF1.15 billion (\$240m). Last year, its turnover was FF2.3 billion (\$256m), with 5,200 employees, and it made a loss of nearly FF200m.

After failing to break into microcomputers, CGCT has fallen back (under a new chairman, Mr Claude Vincent) on switching systems and telephone equipment for the home and office. Mr Vincent's strategy is to find help for both. CGCT has just found a rescuer, Matra, for its private telephone business. The part-state-owned arms and high-tech company has sunk FF1.3 billion, against CGCT's own FF600m, in a new telephone-equipment company, CGCT-Communications, which started up on July 1st. It has about a quarter of the French telephone market, against Alcatel-Thomson's 40%.

Siemens has a good track record in telecoms. It has joint research ventures with Britain's Plessey, Italy's Italtel and,



The phone never stops ringing

Italy passes the buck to its bambini

Until the collapse of Mr Bettino Craxi's government on June 27th, the Italian economy had enjoyed the rare luxury of nearly three years of unbroken government. During those three years of political stability, business has thrived and Italy's economy looks in better shape than for many years—with one notable exception

Italy has rediscovered single-digit inflation. In the ten years to 1983, consumer prices rose by an average of 17% a year; in the 12 months to June 1986, prices rose by only 6.3%, and the OECD reckons that inflation could fall to just 3.5% next year. This represents a huge narrowing of the gap between Italy's inflation rate and the OECD average (see chart).

Leading the government's attack on inflation has been the effort to slow the rate of increase in wages by pruning the *scala mobile*—the system which automatically links wage increases to price rises and therefore tends to reinforce inflationary pressures. Under the reformed *scala mobile*, wages are effectively indexed for only 50% of inflation compared with 80% in 1983.

The prospects for Italy's balance of payments also look good. After running a current-account deficit averaging \$5 billion a year for the past six years, the country looks set to move into a surplus of, maybe, \$4 billion this year. But most of this turnaround will be the result of cheaper oil—Italy imports 70% of its energy needs—now made cheaper still by the appreciation of the lira against the dollar. Without these two windfalls, Italy's trade balance would have continued to deteriorate: in 1986, the volume of imports will grow faster than exports for the third year running.

Export growth is expected to be held back by the fall in demand from OPEC, which buys 10% of Italy's exports—the highest share among the big OECD economies. Also, Italian costs are still rising faster than those abroad, so industry's international competitiveness is being eroded. Despite several devaluations, the lira's real exchange rate (ie, adjusted for inflation) has appreciated by almost 30% against the D-mark since the EMS was set up in 1979.

Real GDP grew by a respectable 2.5% in 1984 and 1985. And although output dipped by 0.1% in the first quarter of 1986, the OECD reckons the economy will grow by close to 3% for the year as a whole. The main driving force behind growth is investment: industry's capital spending rose by 25% during the two years 1984 and 1985 and is expected to expand by a further 6-7% this year.

Perhaps the most impressive achievement in recent years is the transformation of loss-making companies into commercial successes. Montedison, Fiat, and even the state-owned giant ENI have all moved into profit. Company profits grew by 30-35% in both 1983 and 1984 and are expected to rise by another 35% this year. Industry has been enjoying the fruits of automation, wage moderation and unusually peaceful labour relations; 1985 saw the lowest number of strikes for at least 30 years. Little wonder that the Milan bourse was Europe's top performer in the 30 months to June.

The rosy outlook for inflation, growth, the balance of payments and profits is marred by the 13.9% of the workforce that is unemployed. One in three people below the age of 25 is out of work—the highest proportion of any big OECD economy. Years of rapid wage inflation and strikes encouraged firms to replace men by machines, and rigid labour laws discourage firms from hiring new workers. The only consolation is that the official unemployment rate probably overstates the true amount of idle labour: Italy has a thriving black economy—maybe as big as 30% of GDP.

Black spot

The improvements in Italy's inflation and its balance of payments are striking, but they are due to luck as much as good economic management. The govern-

ment has failed to tackle the disease which lies at the root of all Italy's economic problems: the enormous budget deficit.

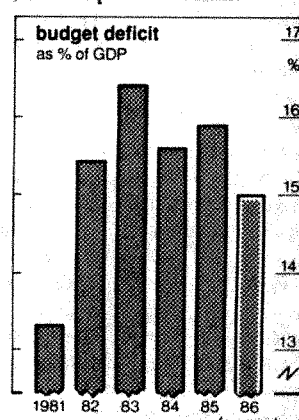
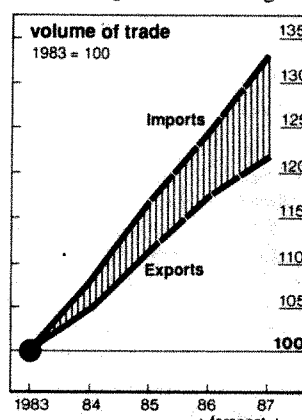
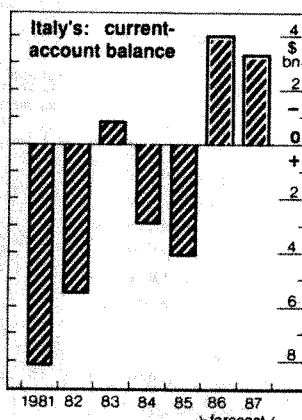
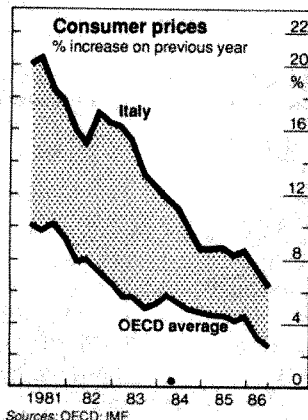
The 1986 budget plans to hold the deficit constant at the 1985 level of 110 trillion lire (\$75 billion), but this is still equivalent to a whopping 15% of GDP, compared with America's relatively modest 3½%. The government has done little to control public expenditure—equivalent to almost 60% of GDP compared with an average of 45% for the whole of the OECD—and although it has tightened up on tax evasion, the tax system remains very leaky. In 1981, an estimated 30% of VAT escaped the net.

Trimming public expenditure is difficult in any country, but in Italy the task is harder still because of the patronage network of the political parties. Fragile coalition governments have been forced to buy political survival through numerous hand-outs.

However, the cost of failing to cut public expenditure and borrowing could be high. Italy's public-sector debt is already as big as total GDP and the OECD has forecast that if the government's deficit remains constant as a share of GDP, then public debt will double to 200% of GDP by the year 2010.

A spiralling public-debt ratio presents two dangers. First, it puts upward pressure on inflationary expectations and interest rates, and therefore risks crowding-out private-sector investment. Real bank lending rates are currently more than 7% in Italy.

Second, a soaring debt ratio—and hence a growing interest bill—will limit the government's room for budgetary manoeuvre. Interest payments are already equivalent to two-thirds of the budget deficit and they are rising faster than nominal GDP. Therefore, simply to hold the budget deficit constant as a proportion of GDP, the government will be forced to make cuts elsewhere. The Italian economy has fallen into the "debt trap"; the longer it delays the inevitable budget cuts, the deeper it will sink.



WORLD BUSINESS

with other German giants. On July 21st, BASF, one of the country's big three chemicals companies which sells Japanese and American-made computers, announced it was holding talks with Siemens. BASF may want to put its computer business into a separate operating company in which Siemens could take a stake.

Japanese shipbuilding

Heavy cutting

TOKYO

The Japanese government is ready to pay the country's shipbuilders to give up the unequal struggle of matching too many yards with too few orders. It is putting the final touches to a range of subsidies worth ¥30 billion (\$190m) to further its plans to get the industry into better shape in the face of 40% world excess capacity. Some of the subsidies will be used to buy up and close idle yards; the rest for low-interest loans to aid diversification.

Japan's small and medium-sized ship-



Sinking

builders are relieved, even though many still face going out of business. The scheme proposes to cut capacity at each of the industry's 44 firms by 20%. This is more severe surgery than it sounds. As 31 of these firms have only one dock, 20%

means, in effect, 100%.

Before it came up with this scheme, the government had envisaged consolidating the industry into ten groups in an attempt to retain Japan's position as the world's leading shipbuilder. Since then, Sanko Steamship, the country's leading tanker operator, has gone under, most of the leading shipbuilders have announced losses for 1985, and even such a giant as Kurushima Dockyard has had to go cap in hand to its bankers.

The transport ministry now talks of just five groups surviving. However, Mr Masao Kanamori, chairman of Mitsubishi Heavy Industries and a former chairman of the Shipbuilders' Association, thinks that three groups may be as many as the industry can accommodate. Mitsubishi Heavy Industries, Ishikawajima-Harima Heavy Industries and Kawasaki Heavy Industries look the safest bets.

Consolidation has already started. In a rare example of collaboration between two Japanese firms lacking cross-shareholdings, Mitsui Engineering & Shipbuilding and Nippon Kokan are discussing jointly cutting back capacity. Kawasaki Heavy Industries, Hitachi Zosen and Sumitomo Heavy Industries are talking of mergers. Sumitomo Heavy Industries looks set to take over Sanoyasu at the request of Sanoyasu's banker, Sumitomo Bank. Imabari Shipbuilding may bail out troubled Koyo Dockyard. Tsuneishi Shipbuilding is proposing a merger of all the shipbuilders around the Inland Sea on Japan's south-west coast.

Even the present plans may not be enough. Were the industry to get rid of the 20% the government wants from its current capacity of some 6m gross tonnes, it would still be left with more than 30% excess capacity over the next few years. Worse, since the government made this estimate the yen has appreciated by about 50% against the South Korean won. With labour accounting for about a third of the cost of building a ship, that only further increases the competitive advantage of the South Koreans, who have more than tripled their world market share to nearly 15% in barely five years.

Bethlehem Steel

The shadow of LTV

NEW YORK

America's biggest Chapter-11 bankruptcy, that of LTV, the nation's second largest steelmaker, has left hardened steelmen wondering who will be next. Not us, says Bethlehem Steel, the third largest steelmaker which is expected to report another batch of operating losses on July 30th, after net losses of \$92m in the first

There was a young hacker from . . .

Ireland, the country "which never had an industrial revolution" (according to a recent advertisement) has ambitions to be a discount provider of post-industrial, high-tech services, from data processing to software design. So do many other countries with an unemployment problem. But Ireland, with worse unemployment (at 18%) than most, has distinct advantages.

Foremost, its tax-breaks. The European Commission allows Ireland great freedom to court foreign investors precisely because its GNP per head is low and its unemployment rate is high. Investors in Irish manufacturing industry pay only 10% corporation tax, and can also take advantage of government-backed soft loans for capital investment and of grants for up to 50% of the cost of education and training. Some semantic gymnastics recently got the term "manufacturing" to encompass software, too.

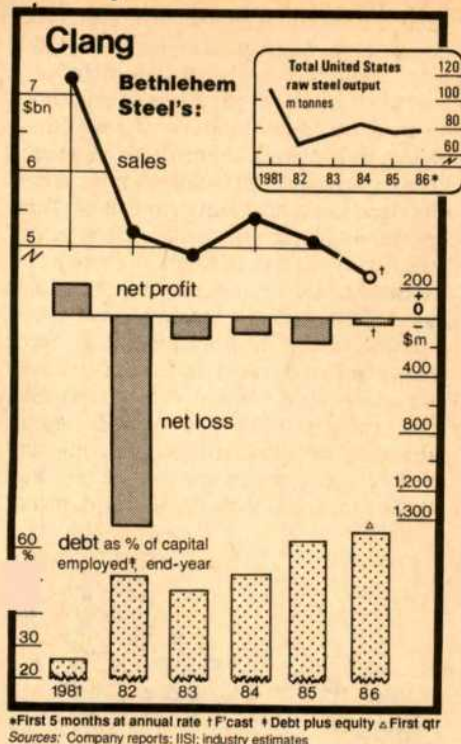
After decades of emigration, half the country's workers are under the age of 25, and it is producing graduates with computer degrees at the rate of well over

1,000 a year. Some of the emigrés are starting to return from formative years of exile in America: two-thirds of the 15-20% of graduates who leave to seek their fortunes elsewhere now come home within ten years.

Another attraction is Ireland's telephone system. The country is further along the road to converting its telephone network to new digital technology than any other in Europe. Since 1979, 80% of its switches have been converted, at a cost of more than \$1 billion. The rates it offers for transmitting data across the Atlantic are the cheapest going, which makes it realistic for Irish firms to do telecommuting contract work for Americans.

The Irish Industrial Development Authority's peppy promotion is starting to get results. Wang, the office automator, has chosen Limerick as the site of its first software development centre outside America. IBM has two such centres in Europe already; one is in Limerick. ICL, a British computer firm, has decided to set up a similar operation just outside Dublin. Britain's GEC is using Ireland as the base for software development for the running of big data banks in America and Holland. And there are more humble ventures, too—such as the data processing plant that another American firm, Neodata, has set up, also in Limerick. It employs 500. Limerick—handy for Shannon international airport, home of the world's first duty-free shop—processes millions of bytes of data while America sleeps.





quarter of this year and \$196m in all of 1985.

Mr Walter Williams, the chairman of Bethlehem since June, has been making calming noises to workers at the company's few remaining plants. Bethlehem says carefully that it "has no plans" to follow LTV, which filed for Chapter-11 protection to give the company time to restructure its operations and finances.

Even though Mr Williams sees no growth in steel for the foreseeable future, he has told workers that if Bethlehem can survive as a streamlined steel company, it might then make a "big bang"—a \$1 billion-2 billion acquisition—to help the company grow. Mr Williams is selling off assets to raise \$300m to help plug an operating cash-flow deficit which has been forecast to reach as much as \$200m this year. In April, he sold J. M. Tull, a profitable Georgia metals distributor, for \$96m and, in June, Kusan, a plastics and building products subsidiary, for \$163m. Bethlehem's reinforcing-bar division has been sold. Its steel-tank manufacturing company and other bits such as its limestone quarry are on the block.

Debt is a big and constant worry for the company. By the end of March, when it reported an operating loss of \$49m on declining sales of \$1.16 billion total long-term debt had risen to \$1.7 billion, equivalent to 65% of total capital. At the end of 1985 the comparable figure had been 62%. Interest and debt charges alone have averaged \$90m a year since 1981. Bethlehem borrowed \$360m in the first quarter of this year—at the end of which its tangible net worth only exceeded by

\$84m the amounts demanded in restrictive covenants under a revolving credit agreement.

Unlike USX (the old US Steel), America's biggest steel company, and LTV, Bethlehem diversified only a little into companies outside steel and, except for its ailing oilfield equipment business and one billion tons of coal in eastern Kentucky mines, they have now mostly been sold. So it only has steel to rely on for

survival. Mr Williams has little option but to stick to his predecessor's strategy of getting Bethlehem down to the right size by cutting manpower and operations to compete on costs and improve quality. But, until demand rises, he faces the industry's 30-35% surplus capacity and depressed prices. LTV's fall will not help. LTV is likely to shave its costs by as much as \$75 a ton and cut prices further to hold on to its market share.

China's economy

Reforming reforms is not revisionism

PEKING

China's decision to invent a so-called "socialist commodity economy" was easy. Putting it into effect is proving difficult. The idea of using market forces to supplement central administrative controls was made attractive by the obvious success of the farming reforms begun in 1980. But the mix of centrally-controlled and relatively self-regulating economies envisaged by the programme is raising problems. The country's economists are arguing about what to do next.

First, there is a general debate over how large a part market forces should play, and how fast they should be introduced. The July 21st edition of *Beijing Review* reprinted a 1979 speech of Mr Chen Yun, a party elder and conservative reformist. In it, he said that central planning should predominate, with market forces as a "useful supplement, not harmful on the whole". Mr Chen wants to keep a firm grip on administrative levers over the economy. Younger leaders like Mr Hu Qili, tipped to succeed Mr Hu Yaobang as party chairman, have already dropped the euphemism "socialist com-

modity economy" and talk freely of a "market-oriented economy" without coy qualifications.

Then at a more practical level, there are serious problems caused by the piecemeal introduction of different reform measures. A medicine factory has to buy raw materials at fluctuating prices but can still sell only at state-fixed prices. Coal distribution is divided between state supplies of superior coal at fixed prices and less desirable coal at fluctuating prices. China has just announced its first official bankrupt company as a showcase for a proposed bankruptcy law—the dubious honour goes to a munitions factory in Shenyang—while hundreds of other enterprises hit hard by the state's tight currency control flounder. Foreign-exchange shortages caused by the reformists' retrenchment have resulted in about 150 projects worth \$650m in the country's four special economic zones being either delayed or cancelled.

Economic figures for the first half of this year do not fully reflect these problems. Growth in industrial output was just



Socialist commodities for sale

WORLD BUSINESS

under 5%, compared with the unacceptably high 23% seen in the first half of 1985. The figures fell below the 1986-90 seventh five-year plan's projection of annual industrial growth of 7.5%, but were a welcome sign of the government's success at slowing down an overheated economy.

Fears that rural industry was growing too fast at the expense of grain production should be allayed by the summer harvest. It is in line with predictions that this year's final grain output will approach 1984's bumper harvest of 407m tonnes.

Mr Hu Qili knows that both the old and new economic structures will have to coexist for some time. Removing central planning from some sectors, he says, has left "vacuums and loopholes" in the economy's management. Economists meeting recently in Peking went further, saying the reform environment "was deteriorating". They suggested increasing the money supply, relieving the taxation system that saps the incentive from bonuses to urban workers, and restoring management powers being snatched back by party officials. They also suggested quickly introducing a system of promissory notes to correct a chain of debt in the country's enterprises caused by the retrenchment.

Mr Tian Jiyun, the vice-premier, whose political fortunes hinge on the success of the reform programme, is heading a special task force to identify the "loopholes"—including bankruptcy procedures, employment problems and the reform of the price structure—with a view to significant changes in 1987. Mr Tian is

considered a progressive by his party and likely to entertain a variety of solutions. What is clearly out of the question is a turnaround. Mr Hu Qili has indicated that the transition out of a centrally-planned economy could last as long as ten years. But, he says, falling back on issuing coupons and keeping everything under rigid control "is not the way out".

Alfa

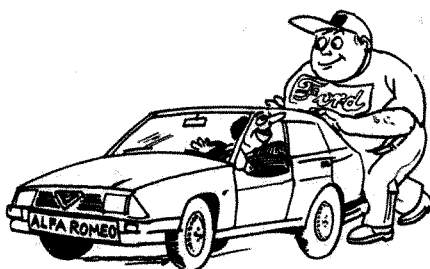
Romeo, where Ford art thou?

How does Ford shake off its image in Europe as a maker of salesmen's motor cars? By sticking a fancy Alfa Romeo badge on the front of its mass-produced vehicles. Detroit's number two motor manufacturer is hoping to clinch a deal with Italy's perennially ailing Alfa Romeo (losses up 150% last year to \$160m). With Alfa Romeo's contribution, Ford would overtake Volkswagen-Audi to become number one in Europe. To Ford bosses—used to being always number two to General Motors back home—that must be a delicious prospect.

An initial stake of 30%, rising possibly to over 50% in the next three years, is being talked about. So far, the only money to be mentioned is a joint investment programme of \$1.3 billion that will be needed to get Alfa back on the road. For its part, Ford would get use of a name that has a strong "grand touring" image

and a better pedigree than upstarts like BMW, Audi or Saab. The deal would also give Ford access to Alfa's distributor network in Italy—at the moment, Ford has only 4.2% of the Italian car market—and it would provide Ford with additional cheap capacity at state-owned Alfa's modern assembly plant near Milan. That, plus the fancy name, could help it attack the luxury market throughout Europe.

Back home in the United States, Ford has its up-market Lincoln/Mercury division to sell posher versions of its basic cars at inflated prices. In Europe, it has to stand by and watch competitors like Volkswagen make juicy profits out of dressing up standard components and selling them as luxury Audi cars. Fiat does the same with its sporty Lancias,



Peugeot-Talbot has its eccentric Citroëns, even Rover has its Rovers. And then there is Daimler-Benz, which has managed to convince everybody that all Mercedes cars are luxury models worth paying extra for. Some 2.4m executive cars are likely to be sold this year in Europe—adding up to a \$50 billion market.

More steps on the long march into foreign markets

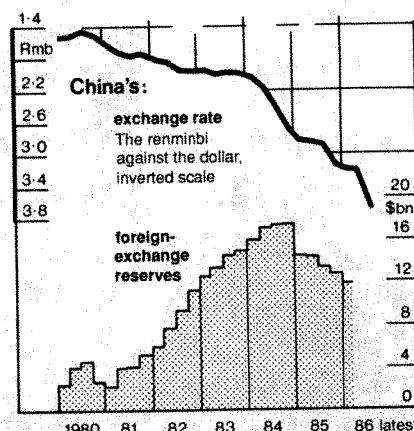
PEKING

China's decision to devalue its currency by 15.8% against a basket of major currencies is a good indication that Peking is slowly confronting reality and attempting to rationalise China's financial structure. Foolishly, Chinese leaders have long viewed the exchange rate of the overvalued renminbi as a matter of national face as well as of economic value. The devaluation announced on July 5th indicates a significant change of attitude.

Despite frequent denials, the Chinese may be taking a tentative step towards the long-term abolition of exchange controls. In the short term, the devaluation is a move towards the promised elimination of the unsuccessful six-year-old system of foreign-exchange certificates. These began as a sort of funny money used for all foreigners' hard-currency transactions inside the country, but have ended up as a hard-currency alternative for illegal use by locals.

As recently as April, China's central

bankers denied plans for any further devaluations following the adjustment of the renminbi last October to three to the dollar. But foreign-exchange reserves, last reported at \$10.3 billion in March,



Source: IMF

are still declining. Foreign bankers in Peking estimate that, measured realistically, they may be down to \$5 billion.

Despite efforts to reduce imports and increase exports, China has just reported a trade deficit for the first six months of this year of \$6.4 billion indicating that the deficit for the year will approach last year's total of \$14.9 billion. Arresting the deficit, particularly the \$5 billion gap in China's trade with Japan that was recorded last year, has become a major political issue.

The devaluation of the renminbi may help promote tourism and service industries, attract new investment from overseas and push sales in foreign markets. But it is unlikely to improve oil revenues squeezed by falling prices or textile exports limited by protectionism. Those two sectors alone account for about half of China's total exports. No devaluation can compensate for China's main trade problem: the consistently low quality of its exports.



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Profit after taxation	£21.6m	up 79%	Interest payable	£15.9m	down 44%
Earnings per share	14.7p	up 71%	Return on capital employed	14%	up 27%
Dividend	resumed at 2.5p		Return on equity	10%	up 67%

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The Achievements

- ☐ Profits up
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- ☐ Returns on investment improved
- ☐ Company reorganised into four new worldwide divisions:
 - Catalytic Systems
 - Materials Technology
 - Precious Metals
 - Colours and Printing
- ☐ Efficiency increased through rationalisation
- ☐ Queen's Award for Export plus four top awards for quality won by group companies

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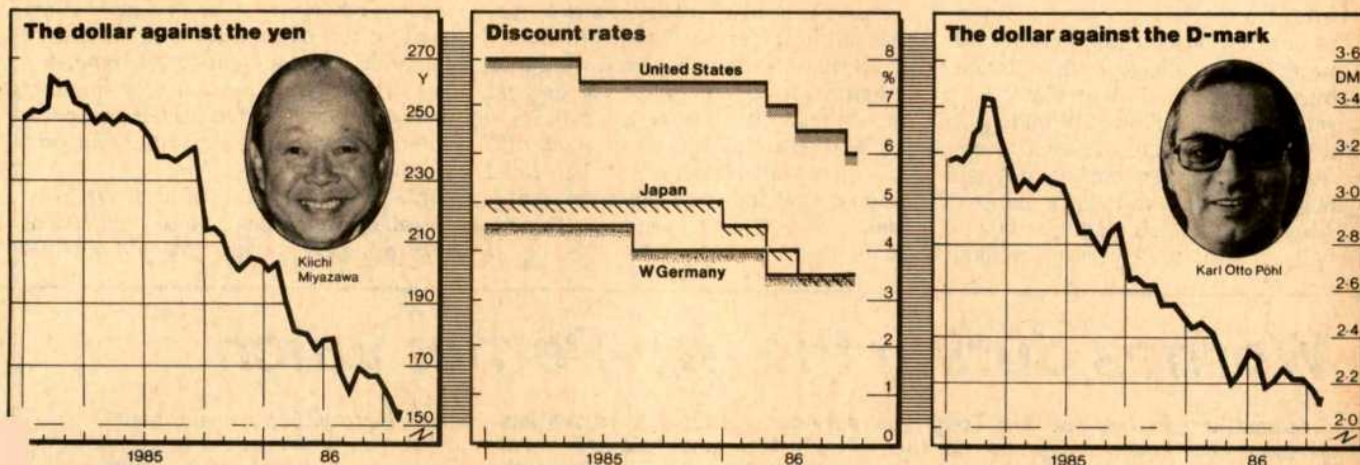
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FINANCE



Currencies fiddle while policy co-ordination burns

WASHINGTON, DC AND TOKYO

It was expected that when Mr Paul Volcker, chairman of America's Federal Reserve Board, testified before the Senate banking committee on July 23rd, the hearing room would be packed—and that he would, as ever, chomp on his cigar. It was not expected that he would read the whole of his 34-page testimony. One senator took that as an indication that Mr Volcker's performance was as important—to financial markets as well as to politicians—as any of his 14 previous appearances before the committee as chairman of the Fed.

Markets are beginning to run scared. The American economy is sluggish, and is dragging the dollar down. The day before Mr Volcker's testimony, the commerce department estimated that growth in America's GNP for the second quarter of the year had been only 1.1% at an annual rate. The administration's hopes for 4% annual growth in 1986 have been left way behind. Estimates of second-half growth are being scaled down daily; it is common to hear that the annual rate then may be less than 2%. The Fed's own forecast for growth in the whole year is now only 2.5-3%.

The answer to the country's economic problems, said Mr Volcker, could not come from American monetary policy alone. The Fed's efforts need to be complemented by not only American but also foreign fiscal policies. Mr Volcker lamented that "while the need for complementary actions seems to be more widely recognised, progress in co-ordinating ac-

tion has been limited."

It is in that context that the Fed's interest-rate policy has to be seen. Of the three cuts in its discount rate this year, the first two were co-ordinated with its trading partners. Despite America's hopes, West Germany and Japan have not yet responded to its latest cut, which reduced America's discount rate to 6%. Mr Volcker did not rule out the possibility of going it alone once more, but he reminded the committee that the general structure of American interest rates is now as low as at any time since 1977. Further unco-ordinated cuts in American interest rates could send the dollar tumbling.



Volcker burns for togetherness

Mr Volcker argued that a further cut in interest rates would not necessarily benefit those parts of the domestic economy most in need of help. Domestic demand remains relatively buoyant at an annual growth rate of about 3½%. A fresh stimulus to demand might do no more than suck in yet more imports—further widening America's \$160 billion-a-year trade deficit.

One motive for trimming interest rates could be to put pressure on America's trading partners to stimulate their own economies. The threat is that, unless they respond with interest-rate cuts or fiscal reflation, America will let the dollar fall further. This would make life even more uncomfortable for Japanese and West German exporters. The yen and the D-mark have already risen by more than 60% against the dollar since February 1985. It seems that Mr Volcker would risk such action only as a last resort; he remains worried about the inflationary effects of a dollar collapse.

After running the dollar down to a postwar low of Y154.85 on July 21st, foreign-exchange dealers paused to wait for an indication from Mr Volcker about whether the dollar would get weaker yet. Modest support from the Bank of Japan did its bit to prevent the yen drifting lower; as did what may prove to be an over-optimistic belief that the appointment of the fiscally expansionary Mr Kiichi Miyazawa as finance minister in Mr Yasuhiro Nakasone's new cabinet presages an easing of Japan's budgetary austerity.

The steep rise in the yen since September 1985 was largely responsible for the 0.5% quarter-on-quarter contraction in Japan's real GNP in the first three months of this year. Earlier this month, Japan's Ministry of International Trade and Industry (MITI) forecast growth of only

2.5% for the full year, against original government forecasts of 4%. More recently, MITI has said that if the yen settles at 150 to the dollar, growth in 1986 might be barely 1.5%.

The new Japanese finance minister will be more sympathetic towards reflation, but his scope is limited. A supplementary budget worth Y3 trillion (\$19 billion) in extra public borrowing has been promised for later this year, but it is opposed by most officials in the finance ministry. Mr Miyazawa's appointment is, first, a symbolic gesture to American opinion;

only second an effort to pit the one Japanese politician with reflationary ideas against the conservative but powerful bureaucrats.

If Japan's fiscal policy remains unchanged, outsiders say that its monetary policy must shift. The Bank of Japan disagrees. It is loth to cut its discount rate—already at a historic low of 3.5%—for the fourth time this year. Bank officials deny that an interest-rate cut would achieve what Japanese exporters want—namely, a fall in the yen back towards Y170.

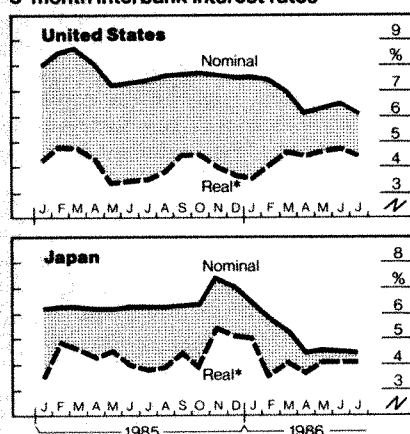
Some at the Bank of Japan say that there is already too much credit. Growth in the broad money supply is running at 8% a year, above its target. Bank officials say they can see inflationary signs in rising share prices, land values and, a favourite Japanese indicator, golf-club membership fees. They are not alone in worrying that companies are borrowing for property and financial speculation rather than productive investment.

Mr Karl Otto Pöhl, head of the West German Bundesbank, has reservations too. Monetary growth is way above target

Worries during the two-Perrier lunch

Stockmarkets in New York and Tokyo are restless because of the slowness of their economies' response to falling oil prices and interest rates. Optimists expect a sharp rebound later this year, which is why both markets remain near all-time highs. But a gloomier view is gaining ground. Here are its implications for investors

3-month interbank interest rates

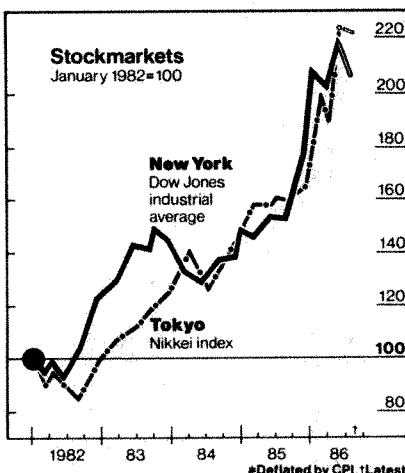


So far the gloomy view is more common in lunchtime chat in Wall Street and Kabutocho than in brokers' recommendations. But it is becoming increasingly fashionable. Gloomsters point out parallels with the 1920s, and feel there is a risk that today's disinflation (slowing inflation: good) will turn into tomorrow's deflation (contracting economies: bad).

Even the deepest pessimists do not usually predict another 1929 crash: governments are unlikely ever again to tighten monetary policy once consumer and investment demand have themselves started to nosedive. Safety nets are in place that did not exist 60 years ago.

What these cautious souls do argue is that today's deflationary trends may make the world economy take much longer to re-adjust—years rather than months—than is conventionally expected. The case was put this week in a report by Chase Manhattan Securities called "Spotlight on Deflation".

It argues that the run up to 1929 saw four years of falling commodity prices, rising stockmarkets, concern about in-



ternational debt and high real interest rates. These same conditions apply today, alongside a burning question. Why is the increase in real incomes from lower prices and gains in financial assets not boosting economic activity?

Two sombre answers. First, that deflation tends to feed on itself as banks cut lending to sectors in trouble—eg, American farmers or third-world borrowers. Second, that wealth and debt are unequally distributed. Because financial institutions shun some lending, credit becomes concentrated in vogue sectors—which, today, means in financial assets and lending to the personal sector. In the short term, this increases the value of such assets. In the long term, it could lead to speculative excesses and a crash.

If correct, what does this mean for financial markets? First, although offshore exotica should be avoided, it would still be sensible to invest in bonds issued by respectable governments. Deflation should mean falling real interest rates. As the chart shows, this trend has much further to go, despite the past

year's sharp decline in nominal rates.

Many in the American bond market do not accept this. Even if the Federal Reserve does cut America's discount rate again, they say that American bonds carry a risk which bonds issued by the big capital-exporting countries, chiefly Japan and West Germany, do not. As long as America has to adjust to its new dependence on foreign money, the dollar is likely to remain under pressure. The fear is that a collapse in the dollar could force a reluctant Fed to raise interest rates, wrecking the bond market.

Japanese and West German government bonds should still be worth buying, but in deflationary times all equities and corporate debt require a more selective approach. In the short term, today's lower inflation has improved the quality of company earnings. But in the longer term, companies need greater demand to sell their goods.

Today's most extreme example of a stockmarket anticipating a boom in demand is Tokyo. There, price/earnings ratios of over 40 are commonplace. Investors' favourite shares are those domestic stocks which, they assume, will benefit most as attempts to reflate boost Japanese consumers' spending. Unfortunately, a lot of Japanese consumers do not seem set on increasing their spending because many are worried sick about recession.

There is even an argument that, as the interest rate offered to the Japanese depositor becomes ever more derisory, he may save more of his salary to preserve the same interest income. This would be the reaction to expect in an economy where deflation has taken hold.

In such conditions, cash becomes king. Illiquid investments—eg, property, gold or old masters—become progressively less interesting. It may be no coincidence that property values are generally flat except in those financial centres—London, New York and Tokyo—which are prospering from the boom in financial assets and in the salaries of the people who trade these pieces of paper.

and, unlike most other industrial economies, the Germans cannot easily blame this on the financial revolution: financial markets in West Germany are fairly free. But West Germany's main case against monetary or fiscal reflation is that it believes that its real domestic demand is set to expand by at least 4% this year. Few facts support this: real GNP fell by 1% in the first quarter of this year.

Few in the foreign-exchange markets expect the dollar to do anything but get weaker in coming weeks, whether Mr Volcker cuts interest rates or not. When the free world's five most important finance ministers next gather under the auspices of the IMF meeting in September, some think that a dollar might buy less than 140 yen.

Mexico

The Baker plan comes alive

WASHINGTON, DC

Mexico is just one step away from a novel rescue package that is likely to affect the financial future of other third-world debtors too. A deal is being put together mustering help from the usual sources—the International Monetary Fund (IMF), the World Bank and commercial banks—but designed, unusually, to accommodate high economic growth and low oil prices. The plan unveiled in September 1985 by America's treasury secretary, Mr James Baker, to help well-behaved third-world debtors resume economic growth looks successful in its first test: the IMF and the World Bank are ready to pay up. But will the world's commercial banks agree to with another \$6 billion between now and the end of 1987?

The IMF has agreed in principle to provide a standby credit of \$1.66 billion or 18 months. The novelty is that it will

Will Mexico's cash stay put?



Posner's protection

NEW YORK

Mr Victor Posner might be glad of the rest should a Florida court put him away for tax evasion. The 67-year-old Miami financier's \$4 billion empire—a complex network of industrial companies he controls through his holding company, Security Management—is deep in debt and beset by creditors. In the past 16 months, he has sold more than \$400m worth of stock in companies such as National Can, Johnson Controls and Peabody International—but his empire still has some \$2 billion of debt on its books.

Last week, a jury found Mr Posner guilty of vastly exaggerating the value of—and thus tax relief on—a gift of land to Miami Christian College, a charitable institution. He faces a possible prison sentence as well as a fine of \$75,000. He bought the land in 1967 for \$2,500 an acre; in 1975, when he gave it away, he claimed it was worth \$125,000 an acre. In fact, the land was worth only \$40,000 an acre so Mr Posner allegedly fiddled the American taxman out of \$1.2m.

While he prepares his appeal, Mr Posner has much to keep him busy. One of the supposed jewels in his crown—Evans Product, a building supply company—has filed for protection from its creditors under Chapter 11 of America's

bankruptcy law. Another, Sharon Steel, has defaulted on bond interest payments; its most recent filing with the Securities and Exchange Commission revealed a negative net worth of \$197m. Since May 1985, Drexel Burnham Lambert, an investment bank, has tried to convince holders of the \$390m in defaulted bonds issued by Sharon to exchange them for new securities and cash—so far without success.

Mr Posner has been forced to take out some nasty loans. He borrowed \$29.7m from Drexel at 17.6% interest. The Bass brothers of Fort Worth, Texas, also lent Mr Posner \$18.3m at 22.4% interest. To service the debt of DWG, a subsidiary holding company, Mr Posner borrowed from his acquaintance Mr Carl Linder. Mr Linder now owns 23% of DWG and Mr Posner is paying back loans to him at 30%.

So far, Mr Posner has not suffered personally: in the year to April 30 1985, he paid himself \$8.1m in salary, stock and bonuses. But his personal fortune, estimated to be around \$100m invested in the companies he controls, may be in danger. The debt issued by Posner-controlled companies could be the first junk bonds really to earn their name.

provide more money if the price of Mexico's oil falls below \$9 a barrel, less if it rises above \$14. Mr Gustavo Petricoli, the new finance minister, reckons Mexico's GDP has fallen by \$7 billion-8 billion because of falling oil prices this year.

The World Bank plans to lend Mexico a record \$2 billion this year. A \$500m loan signed this week was the quid pro quo for Mexico's agreement to reduce its tariff barriers. Other loans will help to make its farms more efficient and to modernise export-oriented industries. If Mexico's growth falls below 3.5% in 1987, the Bank may add \$500m for domestic investment.

The American Treasury says that if the Mexicans ask to reschedule their government-to-government debts, it will give them trade credits and urge other governments to do the same. It will also seek to put together a short-term credit from governments and banks to bolster Mexico's reserves while the package is being completed. In New York, commercial bankers are predictably cautious. "Reforms in Mexico are the key," one says. "We want to make sure our money won't come out of Mexico immediately after it's gone in. Six billion dollars is more than we expected, but not shockingly."

Mexico has offered an array of reforms. It promises to cut the fiscal deficit by the

end of 1987, probably leaving it at about 10% of GDP—still huge by IMF standards. This is to be done through higher utility charges and more assiduous tax collection. Subsidies to state-owned corporations, which have been reduced by 40% in the past three years, will be cut further. The number of state enterprises has already been reduced from about 1,100 to 700, and more will be privatised. Foreign investment will be vigorously encouraged. Big commercial banks point out that Mexico has not been good at delivering on its promises in the past; but, prodded by Mr Baker, the banks are nonetheless at the negotiating table.

Trustee Savings Bank

Splitting infinity

The share flotation of Britain's Trustee Savings Bank (TSB) Group is finally going to happen. An issue (at a fixed price) of new shares is planned for mid-September. This follows the transfer on July 21st of the savings bank's assets into a conventional company. Hitherto, they had been part of a unique legal entity, neither a joint-stock company nor mutually-owned. A decision by the House of Lords on July 3rd—that the TSB's depositors



What price a reconstructed bank?

have no rights to its net assets—cleared the way for Britain's biggest flotation outside the government's privatisation programme.

The issue is expected to raise £1 billion-1.5 billion (\$1.5 billion-2.25 billion) of new capital and to attract at least 1m buyers. Half of the securities will be reserved for sale to about 5m depositors who opened accounts at the bank before December 17 1984 and 26,000 employees, with a low minimum purchase (around British Telecom's £260), payable in two instalments, to encourage modest punters. The launch is likely to create Britain's second longest list of shareholders (after BT), sixth biggest domestic banking group (after Royal Bank of Scotland)—and a unique pricing problem for the issuer.

Fixed-price new issues are hard to get right. The TSB will publish a "pathfinder" prospectus in late August with no share price and will set a figure after it has gauged market reaction. The problem is that nobody owns TSB now. None of the new money will be needed to buy the business; it will all stay in the bank. So the issue will add to the bank's net worth at the same time as it tries to value it.

In deciding the price and size of the issue, TSB has to balance two opposing pressures. The less capital the group raises, the more "something for nothing"

its purchasers acquire. The group already has big reserves (£809m at November 20 1985): if, say, it tried to raise only £800m, buyers would then have capital and reserves of £2 for every pound invested.

But the upward constraint is that the bank is unlikely to be able to use a lot of new money profitably. It already has plenty of capital, with free equity equal to 4.9% of assets (compared with 4.2% for the nearest British clearer, Lloyds) and set to hit 14% if the issue fetches £1 billion. Brokers at Phillips & Drew reckon TSB's assets (eg, loans) would have to grow by 45% a year for five years to

match the other clearers' capital ratios.

Some of the money is surely earmarked for acquisitions. Even so, the group will have trouble matching existing returns. TSB is highly profitable: its 1.01% net return on assets last year was second only to Yorkshire Bank's 1.71%, according to IBCA, a London firm of banking analysts. Investors will not pay as high a price for TSB's new capital, much of it likely to go to the money markets, as they would for the old, which supports lucrative instalment lending and mortgages. This will restrain TSB's appetite for new cash. Nor will institutional investors be keen on a huge bank issue, after National Westminster's £714m rights issue in May knocked bank shares for six.

Where will TSB slot in among Britain's retail banks? One expert on retail bank shares, Mr Patrick Frazer of Alexander, Laing & Cruickshank, a London stock broker, forecasts after-tax earnings in the year to November 20 1986 of £126m (up 15% from the previous year, and assuming £1.125 billion in new capital), a high yield to tempt investors, and inevitably a deep discount to net assets (see table). Where the share price will stay depends on how well TSB—started in 1810 to manage the savings of the poor and a fast mover since it was given new freedoms in the mid-1970s—manages to keep snatching high-margin business from the clearing banks while staving off inroads from the deregulating building societies.

Pushing shares in the High Street

In the run-up to London's deregulatory Big Bang, Britain's clearing banks are trying to work out how to get the man-at-the-counter to buy and sell shares in their branches. Barclays is the first to launch a coherent bid for the average depositor's investment business.

It is setting up a retail-broking subsidiary, Barclayshare, to join the London Stock Exchange and to offer customers two services. The first is investment in tax-relieved Personal Equity Plans and will be available as soon as the plans officially begin in January 1987. The second, direct investment in stocks and shares, will be launched in 150 branches on a pilot basis in the summer of 1987. Barclays officials plan to price "competitively"—though they pale at the mention of no-frills discount brokerage—and reckon costs will be recovered when 100,000 customers make four transactions a year.

Banks process share deals for customers already, handing them on to brokers in exchange for half the commission and collecting an extra £5 per deal from the investor. Around 600,000 transactions were handled through the 10,500

branches of London-based clearing banks in 1985. But now Barclays will actively court investors, offer investment advice (in ways that do not make the City's new securities regulators cross) and link securities accounts to bank accounts. Though customers will still be able to name a particular stockbroker to handle the transaction, Barclays will try to put as many of the orders through its own market-maker, Barclays de Zoete Wedd, as it can while still getting its customers the best price.

The Barclays share-dealing scheme will not get going for a year. Other banks, slower to announce their plans, may be faster to implement them. National Westminster is likely to reveal a similar approach within the next three months. NatWest has already begun diverting orders from regional brokers to its own County Securities. Lloyds Bank, which does not plan to make markets in British equities for a while, expects to offer depositors a "low-tech" share-dealing service. Midland has taken a different tack by letting space in a Birmingham branch early in June to Smith Keen Cutler, a regional broker.

How investors rate British banks

	price/ earnings	yield %	price/ net assets %
Bank of Scotland	7.5	5.3	90
Barclays	6.2	5.6	90
Lloyds	5.0	6.1	82
Midland	6.2	6.8	64
NatWest	5.9	5.5	83
Royal Bank of Scotland	7.8	4.9	95
TSB—likely offer price	5.8	7.0	55
—likely trading price	7.0	5.8	66

Source: Estimated 1986 earnings, dividend and end-year assets for all banks, plus likely TSB ratios, Alexander, Laing & Cruickshank. Prices: July 23rd.

London's commodity exchanges

Defending the heavyweight title

London's commodity exchanges are out of sorts. Markets for "softs"—sugar, coffee and cocoa—are losing business to New York, while the London Metal Exchange is still struggling in the aftermath of the tin crisis. How long can London go on claiming to be the commodity-trading capital of the world?

London's title is already under challenge from New York and Chicago, which have been usurping some of its previous trading and taking part of its role as a benchmark for commodity contracts. Londoners have been talking all year about revamping the exchanges, but only preliminary moves have been made. The London Metal Exchange (LME) has agreed to set up a clearing house to guarantee business, an idea it shunned for a century. The London Commodity Exchange (LCE), which runs the softs markets, turned itself into a company in April, and appointed Mr Saxon Tate as chairman. Next year, it will move all three softs markets into one building.

The biggest questions will be debated during the next few months. They concern how far London's exchanges should court investors. Around 80-90% of business on London's commodity exchanges is directly related to industry and trade, whereas New York leans heavily on investors and speculators. Many of the old guard in London believe that to cater more to investors would alienate commercial customers. Yet if it fails to lure investors, London risks losing further volume to its American rivals.

The LCE has been the more adventurous of London's exchanges. It says it welcomes investors, and will introduce new options next year to attract them. These are contracts for the chance to buy or sell a commodity at a specified date and price and can make commodity trading less risky. Next, the exchange must decide whether to allow individual, inde-

pendent traders—known as locals—on to the market floor.

London commodity markets do not have locals, while American markets do. Mr Tate believes they are essential if his market is to get the liquidity it needs and is trying to convince his board to allow them in. When commodity prices are depressed, speculators tend to invest elsewhere, but locals (who typically specialise in one market) continue trading, because it is their only chance to make money. Mr Tate thinks locals helped New York usurp London as the world's leading sugar market in the past decade.

The LME is slower to change, and its problems—mainly the risk of losing more of its reputation after the tin débâcle—are trickier. It is not keen on speculative investors, and has done less than its sister in softs to bring them to market. It is now up against Britain's Securities and Investments Board (SIB), which is keen to improve protection of investors, few though there are. It has pushed the LME into accepting a clearing scheme, but the exchange is resisting making its markets more transparent. To satisfy the board and to draw investment business, the LME must look at two reforms: all-day floor trading (as in the softs) and electronic trading.

All-day open outcry trading would mean that instead of brief bouts of shouting at each other in the LME's five-minute rings, followed by hours of more clandestine telephone activity, traders would shout at each other all day long. Every trade would be visible, pleasing the SIB,



Travelling to New York

investors and the big American brokerage houses, who practise this system in New York. They want to extend their trading hours and product range by using London, and could offer the LME far more business. The next stage could be to bring in locals.

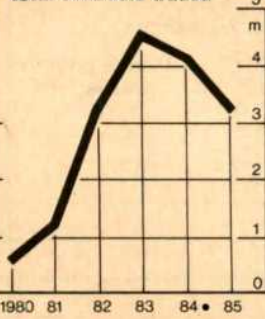
Electronic trading could offer London a chance to out-smart New York, both in metals and softs. Mr Mike Brown, the LME's chief executive, agrees with Mr Tate that electronic trading will come to commodities, but is unsure when. It would mean traders could simply put bids and offers for commodities on screen, accept offers on screen, and so make contracts on screen. The system offers simplicity and transparency.

So why not adopt it now? Electronic trading, says Mr John Wolff of the broker Rudolf Wolff, is not far enough advanced to be able to come up with a settlement price. LME settlement prices are fixed after an assessment of the market at the end of the morning rings. They are written into contracts all over the world and are central to the LME's function.

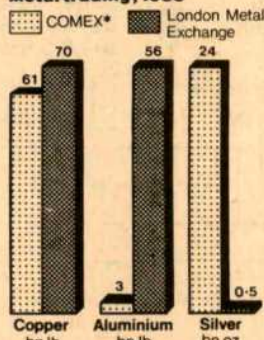
If screens cannot handle everything, why not maintain a ring (or floor) as well? That would give the market extra transparency, without the loss of the advantages of the open outcry trading so valued by Americans. Nothing, they say, can ever replace floor trading because the physical presence of brokers in a pit or ring provides extra trading opportunities. Even a rush to the telephones by one or two brokers can be of great significance to rivals. In markets these things matter. Mr Tate recognises all this, and says that electronic trading is much in his mind. He and the LME's Mr. Brown should seize the initiative before their American rivals do.

The American challenge

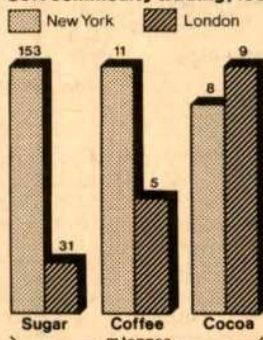
London Metal Exchange total contracts traded



Metal trading, 1985



Soft commodity trading, 1985



Source: Commodity exchanges

*New York's commodity exchange

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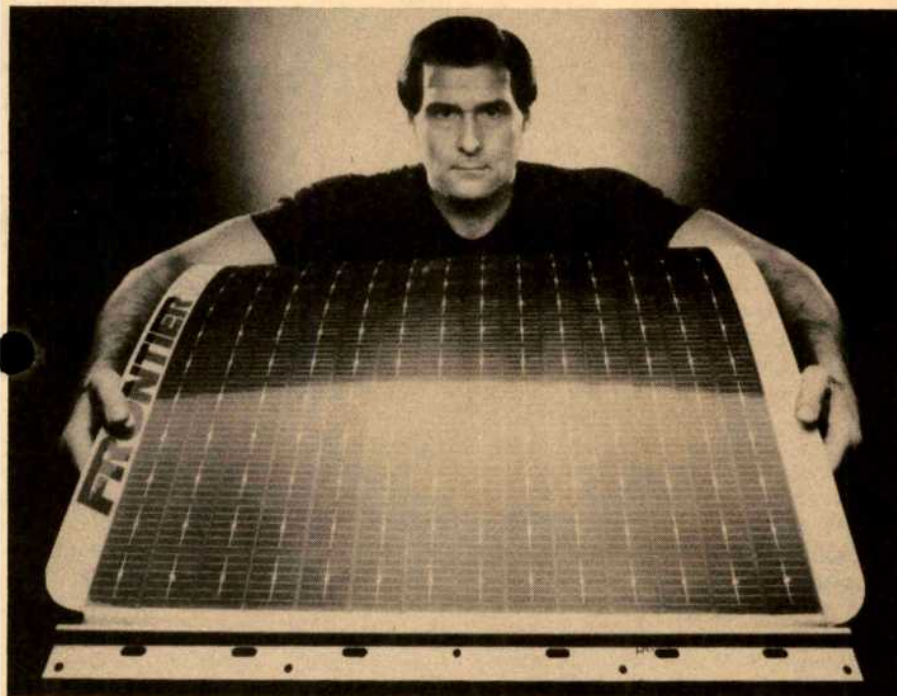
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SCIENCE AND TECHNOLOGY



Meet my power station

The slow but steady march of the amorphous solar cell

TROY, MICHIGAN

For 30 years, champions of solar energy have put their faith in photovoltaic cells—devices that turn sunlight into electricity directly. The technology is elegant: as sunlight's photons fall on a cell, they dislodge the cell's electrons from their orbits around their parent atoms and free them to form an electric current. Photovoltaic cells already power watches and calculators. For larger applications, enthusiasts have been waiting for a breakthrough to cut costs.

No big breakthrough has come. But nor has the technology stood still. In recent years, incremental improvements have nudged the efficiency of photovoltaic cells up, and the cost of making them down. Although photovoltaic power is still too expensive to take the place of the industrial world's electricity-generating stations, it may at last be ready to bring power to remote areas where connection to the electricity grid is impractical—and to much of the third world.

The efficiency of solar cells is measured by the proportion of solar energy they turn into electricity. Stanford University in California set a record this year with an experimental cell that has an efficiency of 27%. But this device, which uses a lens to concentrate the sunlight, is made of crystalline silicon. Although crystalline-silicon cells dazzle in the laboratory, they shine less brightly in the marketplace, where they face a growing challenge from cells made of less efficient—but cheaper—amorphous silicon. About a third of the photovoltaic cells now being sold are made of amorphous silicon—up from 3% in 1981.

Amorphous silicon's appeal is that it costs less than crystalline silicon and absorbs sunlight more easily. Crystalline cells are typically 100 microns thick (one micron is a thousandth of a millimetre), but amorphous films can be made as thin as half a micron. While crystalline cells are brittle, the amorphous stuff can be

stuck on slender films of plastic or stainless steel and produced in rolls, much the way a press churns out newsprint. But to exploit these advantages, engineers have had to overcome two obstacles. Amorphous silicon is intrinsically less efficient than crystalline silicon; and cells made from it degrade over time.

Both obstacles are beginning to disappear. In 1980, enthusiasts for amorphous silicon were delighted with efficiencies of 5%. Today, efficiencies of 10% are achieved routinely in the laboratory. One company—Energy Conversion Devices (ECD) of Troy, Michigan—has demonstrated a thin-film cell with an efficiency of 13%, and says it knows how to get as high as 20%. A trick that has lifted the efficiency of this and other cells is stacking films on top of each other, with each layer tuned to scoop up the sunlight at a different wavelength.

The idea behind this "multi-junction" technique is to enable a larger proportion of the photons striking a cell to dislodge electrons. Photons liberate electrons by giving them enough extra energy to escape from the atom's valence band (where they are trapped in orbit around the nucleus) to the conductive band (where they can float away on an electric current). But to energise an electron this way, the photon hitting it must have a frequency that matches or exceeds the energy gap between the two bands. The bandgap of amorphous silicon, for example, is 1.7 electron-volts. This means that photons towards the blue end of the spectrum energise its electrons neatly, while less energetic photons pass through the cell and are wasted.

Answer: use one layer of the cell to mop up the blue photons, and doctor the other layers in such a way as to lower the bandgap and mop up the feebler photons. The doctoring is done by alloying the silicon with other chemicals. ECD's 13% cell, for example, has three layers: two use fluorinated amorphous silicon alloy; the third layer is alloyed with germanium.

The other obstacle that has slowed the progress of amorphous cells is the way their performance deteriorates after exposure to sunlight. Typically, amorphous cells lose up to half their efficiency after a few months of operation, and then stabilise. Crystalline silicon does not degrade. The reason—probably—is that the energetic reaction of photons and electrons snaps the weak bonds between the atoms

inside amorphous silicon. These dangling bonds snare electrons and reduce the flow of current. In the lattice of a silicon crystal, on the other hand, atomic bonding is stronger.

Here, too, the makers of photovoltaic cells are close to a solution. ECD claims to have produced a multi-junction cell that shows no degradation after 2,000 hours of exposure to sunshine. Part of the answer was to make the layers of the device thinner—and so reduce the number of dangling bonds available to trap electrons moving through the cell. Another important innovation was to strengthen the atomic bonding by mixing fluorine with the silicon and germanium alloys.

Inevitably, results on the production line lag behind those of the laboratory. ECD's best production-line cells achieve efficiencies of 8%. This means that amorphous cells have a long way to go before they can generate electricity as cheaply as burning fossil fuels. To do that, America's Energy Department estimated recently, efficiencies of 13-17% would be necessary. Some companies hope to reach higher efficiencies by switching to different materials, such as gallium arsenide or cadmium telluride; others remain convinced that the answer lies in making crystalline silicon cheaper (for one example, see the box below). But the steady progress of recent years is giving the partisans of amorphous silicon growing confidence in its future.

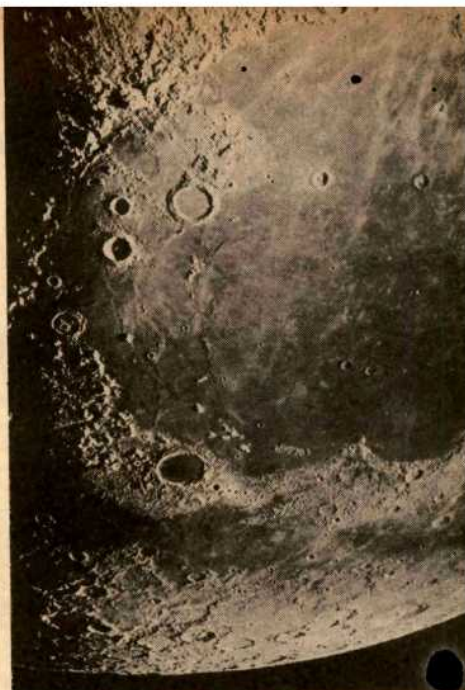
The moon

A collision did it

Every so often, a hoary old scientific chestnut gets picked up and polished. One of the oldest and hoariest: where did the moon come from? Suggestions have ranged from the sedate (the slow accumulation of material in the early solar system) to the cataclysmic (the disintegration of a rapidly spinning earth). Two new lines of evidence suggest that some of the traditional ideas can be discarded. Both bits of evidence hint that the moon was excavated piece by piece by planetary collisions with the primordial earth.

Start with a simple proposition. If the moon and the earth had once formed a single body, they should be made of the same material. The Apollo missions to the moon ought to have been able to resolve this issue, but the compositions of the lunar samples they scooped up have—until recently—yielded frustratingly ambiguous answers.

Working with these samples, Dr Ted Ringwood, of the Australian National University in Canberra, has identified a group of chemical elements which, he claims, solves the problem. Known as the siderophiles, these comparatively rare elements have atomic properties that give them a particular affinity for iron. Conveniently, the earth developed an iron core



A chip off the old block

during the earliest stages of its evolution. In the process, the surrounding mantle would have been depleted of the siderophile elements. Because other bodies in the solar system have very different sizes and histories, their relative abundance of siderophiles can, in principle, be used as a signature of their internal processes.

In this week's issue of *Nature*, Dr Ringwood reports striking similarities in the amounts of siderophiles such as tungsten and cobalt found in samples from the

Doing it with ribbons

PITTSBURGH

Amorphous silicon has not won over every player in the photovoltaic game. Pittsburgh's Westinghouse Electric—better known for its nuclear power stations than for its research on solar energy—is one company to have opted for a strategy of making efficient single-crystal cells cheaper, rather than making cheap amorphous cells more efficient.

Westinghouse has an advantage. The company started to take an interest in silicon technology more than 20 years ago. Its objective then was to get a foothold in the semiconductor business, but the research also left Westinghouse with the patents for a special crystal-growing recipe known as dendritic growth. In the 1970s, the energy crisis persuaded the company to blow the dust off its patents to see whether dendritic growth could be used to make solar cells rather than semiconductor chips.

Silicon chips are usually made by growing a lump of crystal and sawing it into thin wafers. This is wasteful: silicon is lost when the sawing takes place, and damaged surfaces need careful repair

afterwards. The beauty of the Westinghouse method is that it dispenses with sawing altogether. Instead of growing crystals in lumps, it grows them in continuous, ultra-thin ribbons that can be made directly into solar cells. About \$30m—much of it from America's Energy Department—has already been invested in the technology. The company's aim now is to automate the procedure to drive the cost of production sharply down.

Westinghouse makes its ribbons by dipping a needle-like seed crystal, called a dendrite, into a furnace containing a bath of pure, molten silicon. Under the right conditions, this forms a "button" at the silicon's surface, with new dendrites at each end. Once the button grows to the right size, it is pulled upwards out of the bath. At the same time, surface tension creates a thin film of silicon between the two dendrites, rather like a film of soap between the prongs of a fork. When the film (or web) solidifies, it becomes a ribbon of crystal ready to be made into a solar cell.

So far, so smooth. The trouble with the Westinghouse process is that it requires continuous adjustment. The silicon in the bath must be replenished as the web is drawn off; and the thermal stresses within the web must be kept under careful control. The only way to monitor the process is to watch for changes in the diameter of the dendrites on each side of the ribbon. At first, Westinghouse relied on the judgment of human operators; now much of the process is automated. A camera scans the diameter of the dendrites and adjusts the power of the furnace. A laser sensor is used to detect the depletion of silicon in the bath and replenish it as the web is drawn out.

Automation has helped Westinghouse increase the output of its furnaces tenfold over the past year. The company plans to have a demonstration production line in operation by mid-1987 but has yet to decide whether to go for full commercial production. It reckons the cells from its demonstration plant will produce electricity for a respectable \$3-5 a watt. That is better than most photovoltaic cells, but still a long way from the 50 cents to \$1 a watt Westinghouse believes will be necessary to stir the interest of the utility companies.

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earth's mantle and in those from the moon. These similarities are all the more striking when contrasted with the composition of meteorites thought to have originated in other bodies within the solar system. Dr Ringwood maintains that the patterns of siderophiles from the earth and the moon are so similar that one theory of lunar origin—the idea that the moon accreted from primordial material independently of the earth—can be rejected as improbable.

How, then, did bits of the earth's mantle turn into the moon? Here support comes from Dr Alan Boss, of the Carnegie Institution of Washington. With the help of a computer model, he has examined the ways in which a rapidly rotating and partially molten body—such as the primordial earth—might have behaved.

Again, an old idea is vanquished. In 379, George Darwin suggested that such body might become unstable and split in two—a neat way to explain the geochemical similarities detected by Dr Ringwood. Unfortunately, as it turns out, that is not the way the planet crumbled: no matter how Dr Boss tweaked his model, the

appropriate instabilities would not develop.

But there is another explanation. Kick anything hard enough and it will shed fragments. Dr Boss's calculations show that this could have happened to the rotating earth if it received a sudden impulse from a colliding body. Plenty of such bodies existed in the early solar system, in the form of small lumps of rock that were combining to form planets.

The precise sequence of events remains maddeningly elusive. Some researchers suggest that a single giant impact by a body the size of Mars, hitting the earth at 10 kilometres a second, would have administered a hard enough kick to make the planet eject material into orbit, which later accumulated to form the moon. Dr Ringwood, on the other hand, maintains that a shower of somewhat smaller impacts kicked up the necessary material a bit at a time. This argument looks like persisting. But with two independent lines of research giving strong new support to the impact hypothesis, it seems as if the old chestnut has finally been roasted.

created by its predecessor, and split responsibility for research between the ministries of industry and education.

Mr Alain Devaquet, the minister responsible for science and universities within the Ministry of Education, has tried to be reassuring. He has, for a start, promised to resist demands from the government's right wing to break up the CNRS, whose 15,000 scientists and 8,000 technicians have enjoyed the status and security of government employees since 1983. But the CNRS will be lucky to escape with level funding next year.

Mr Devaquet also appears intent on reversing the accelerated recruitment of new scientists started by the previous government. He has withdrawn job offers from 450 researchers who have passed the necessary examinations and expected to be hired by the CNRS this year. Up to two-thirds of those who would have been offered full-time posts will still be taken on—but on one-year contracts.

In justification, Mr Devaquet points to a recent legal decision that invalidated the results of a 1983 election for members of the CNRS's ruling body, whose 42 specialist committees advise on promotions and recruitment. This explanation has been met with derision by the scientists whose job offers have been withdrawn. They say that Mr Devaquet is simply using the legal decision as a pretext for cutting recruitment into the agency, and to prepare the ground for bigger cuts in existing staff next year.

The CNRS affair has provided a catalyst for protests from researchers who suspect that the political support which science enjoyed under the Socialists is slipping away. Some 3,500 took to the streets last month for a demonstration in Paris. More rallies are planned for the autumn, to coincide with protests against the new government's plans for greater autonomy for the universities. Junior staff think the proposals will leave them with less say in running the institutions.

These protests have been echoed in muted fashion by the government's main research advisory committee, the Higher Council for Research and Technology. Its 40 members complained last week that the rewards from France's steady increase in science budgets since 1979 were in danger of being thrown away. The government, however, argues that the size of the research budget is only one determinant of technological strength. It expects indirect measures, such as deregulation and tax incentives, to do more to promote competitiveness than spending more on research. Nor is attacking the science budget likely to lose the government votes. Many French conservatives see the academic community as a power base for the Socialists.

French laboratories

Scientists take to the barricades

After five prosperous years under the Socialists, France's scientists are facing an unwelcome bout of austerity. The new conservative government of Mr Jacques Chirac has already cut the research budget for 1986 by 8%. Next year is unlikely to be better.

The Socialist government made scientific research one of its top—and most visible—priorities when it came to power ... 1981. It passed a law that would have committed France—given certain favourable economic circumstances—to raise its spending on R&D from 1% to 2.5% of GNP by 1985. In practice, the Socialists' achievements fell short. But government spending on R&D rose by a respectable average of more than 7% a year between 1981 and 1985. At the same time, several thousand new scientific posts were created in government laboratories.

Too much, said the Chirac government. R&D was required to provide almost a third of the FF10.3 billion (£980m) in economies sought by a post-election rejig of spending plans for 1986, leading to a drop of 10% in the operating grants for the two main government research agencies—the National Centre for Scientific Research (CNRS) and the National Institute for Health and Medical Research (INSERM).

French scientists, predictably, are com-



Unreassuring Devaquet

plaining. Many fear that the government's continued support for high-profile technological programmes, such as building a new version of the Ariane rocket, and developing the Hermes space shuttle, will draw money away from the basic research carried out in universities. The new government has abolished the Ministry of Research and Technology

PARIS

TECHNOLOGY BRIEF

Enter (amid battle) the supertelly

Europe and Japan are waging a technobattle over how best to provide the public with top-quality television pictures in the 1990s. Over the past decade, the Japanese broadcasting authority, NHK, has been perfecting a high-definition television system that uses 1,125 horizontal lines across the screen, instead of the 525 lines they and the Americans use at present. This offers much finer grained pictures—better, in a sense, even than film.

The Japanese, with the Americans and Canadians in tow, have been pushing hard to get their high-definition television (HDTV) system adopted as a world standard. The Europeans are adamant that it should not be. At a recent meeting of the International Radio Consultative Committee in Yugoslavia, they managed to get the issue deferred for another four years of discussion. With better-quality pictures from 625-line television, Europe's broadcasting engineers do not see the NHK proposal as an answer to their own problems.

The two sides have so little in common that four years may not be long enough to reach a consensus. For a start, America and Japan both have electricity supplies that alternate at 60 Hertz (cycles per second), while Europe and most other places have 50-Hertz electricity. Television scenes illuminated with light blinking 60 times a second (eg, in America) produce a shuddering effect when displayed on television sets which have their pictures refreshed 50 times a second. Europe's viewers tolerate shudder on the occasional American programme. They would not like it all the time.

Then there is cost. If adopted, the Japanese HDTV system would cost as much as did the switch from black-and-white to colour. HDTV viewers would have to buy a new television set to receive the super-quality pictures. Yet broadcasters would still have to transmit separate pictures for people with conventional colour and monochrome sets.

Hence Europe's preference for a system that is evolutionary rather than revolutionary in design—and capable of being received by existing sets fitted with a cheap add-on box.

The European Broadcasting Union has adopted a new family of television standards called MAC (multiplexed analog components), developed by the Independent Broadcasting Authority in Britain. These aim to provide all sorts of future television features—from wide-screen pictures, eight-channel sound and data to direct satellite broadcasting and better definition. The intention is to have MAC pictures compatible with all of Europe's existing television sets.

The motives are not wholly altruistic. European equipment makers have been lobbying their governments hard for fear that if

are all offering studio equipment based on HDTV standards.

One of the first production companies to buy Sony's \$1m HDTV system was Paris-based Captain Video, which has been using it to supply complex "matting" (ie, special optical effects) that would be too expensive using film, and impractical with the video cameras and recorders used in studios today. The equipment promises production savings of 15-20%.

HDTV studio equipment can also offer television stations better "prints" for broadcasting. After a commercial is in the can, successive generations of prints are made of it on 1-inch video tape for distribution—with a loss of quality compounded each time it is re-recorded. An HDTV master tape made to 1,125-line television standards has a definition better than the electronic equivalent of 35mm film, while its conversion to 1-inch distribution tape in-

that their medium no longer has a monopoly over the distribution of pictures to the sitting room. Nowadays it has to compete for viewers' time not only with cable television (and soon with two-way interactive cable), but also with video cassettes, video discs, video games, even home computers. Waiting in the wings are awesome new inventions like the CD-ROM (compact disc read-only memory), which stores encyclopedic volumes of pictures, text, music and commentaries, all capable of being interrogated by typing a few simple questions on the screen of a home computer.

Studio in the sky

The television industry everywhere is under the same threat. Its great white hope is DBS—direct broadcasting satellite beaming television program and other video delights down to viewers below. In 1977, the World Administrative Radio Conference allocated part of the frequency spectrum above 10 GHz (1 gigahertz is 1,000 megahertz) to satellite broadcasting. Ever since, broadcasters have been waiting impatiently for electronic firms to perfect the special microwave valves—known as travelling wave tubes—that would be powerful enough to transmit pictures direct from space to people's homes.

The most powerful travelling wave tubes for broadcasting satellites look like being the new 200-watt devices being developed by Thomson-CSF in France and AEG-Telefunken in West Germany. The Mitterrand government had hoped to have its TDF-1 DBS satellite with Thomson tube orbit by this year. The scheme has slipped by 18 months to two years, following troubles with the Ariane launcher and a change of heart by France's new conservative government. The French 200-watt tubes have nevertheless been flown in two Japanese experimental satellites, BS-2a and BS-2b. One of these has now gone on the blink and nobody is yet sure how reliable the 200-watt transmitters are.

If they can be made to work properly, DBS systems with 200 watts of power ought to be able to deliver pictures to dishes less than a tenth the size of the ground stations used for telecoms today. Unfortunately, even a 1.8 metre dish perched on a rooftop would be unwieldy in a high wind. Mounted on the ground, it would need about half a ton of concrete to keep it steady. In Britain, it would also need to



Never mind the quality, see the width

(like the Americans) they accept the Japanese standard, they, too, will kiss their television businesses goodbye—as Sony, Hitachi, Sanyo, Toshiba, Mitsubishi and Matsushita tool up for a global price war in HDTV equipment for studios, transmission and home.

From studio to home

Yet Japan's HDTV and Europe's MAC are not in direct competition. Each represents a set of engineering standards for quite separate things, and serves different sectors of the television industry—which range from programme-making to distribution and display in the home.

HDTV is seen as a studio standard for producers wanting to make features or commercials with the sharpness of 35mm film but taking advantage of the flexibility, faster turnaround and graphic tricks offered by video tape. Sony, Hitachi and Ikegami

involves fewer quality-reducing stages. So distribution tapes emerging from HDTV studios tend to be superior to those from film laboratories.

But HDTV is not a distribution (ie, transmission) system in a television sense, still less a standard for domestic television sets. True, Japanese officials are proposing a derivative called MUSE for transmitting HDTV pictures—but they have yet to win agreement among equipment makers in Japan, let alone the rest of the world. After that, they will need to develop standards for receiving and displaying HDTV pictures on domestic television sets.

Europe's television engineers have, in contrast, started in the middle. They argue that it is neither the studio nor the home, but the distribution link between them, which is in the greatest mess and needs to be standardised.

Mess? Broadcasters are finding

have planning permission.

Hence the pressure to develop ever more sensitive receivers—so that domestic dishes can be reduced to 90cm or even 60cm in diameter. These could be mounted in the loft. Their price would drop from \$1,000 or so for a 1.8-metre dish and its decoder box to around \$350.

At the 1977 conference, five channels plus "parking places" in geosynchronous orbit were allocated to each country in Europe. Britain and West Germany still say they hope to have their DBS services working by 1990. In April, the IBA in Britain started advertising franchises for three (out of Britain's five) DBS channels. The offer closes on August 29th.

But the satellites still have to be built and launched. With the tback to America's shuttle programme and problems stacking up for Europe's own Ariane launcher, few are now putting money on getting DBS services up and running in Europe (or anywhere) by the end of the decade.

Overhaul for telly

Europe's route to high-definition television—and other technological improvements—is via DBS. The reasons are threefold:

- **Money.** Most broadcasting authorities in Europe have already had to replace or upgrade much of their existing equipment for terrestrial transmission. They cannot justify upgrading it again for a decade or more.

- **Improvements.** Though developed later than America's 525-line NTSC colour system (adopted by Japan), both of Europe's 625-line systems, PAL and SECAM, are beginning to show their ages. Television engineers everywhere want to get rid of inherent problems in first-generation colour equipment—like the "edge" and "moiré" effects caused by high-contrast colours on captions and closely-striped patterns.

- **New features.** In their battle for the viewers' attention, broadcasters want to be able to market technological refinements that give television an edge over its new video rivals. Top of the list are stereo sound, additional commentary and data channels, wider pictures and higher resolution.

The MAC family of standards has been designed to provide all these and more. The principal standard, C-MAC, has been optimised for satellite transmission. The version for cable television is D-MAC. A narrower-band derivative called D2-MAC, carrying only half the number of sound chan-

nels, has been added for early community-wide cable systems.

Television engineers in Europe and Japan differ fundamentally on how they see the television set of the 1990s. Where Japanese engineers expect it to be a bulky box built round a high-resolution cathode ray tube, the Europeans see flat-panel displays more than twice the size of today's largest television screens.

The IBA in Britain argues that television tomorrow will be more cinema-like. People are not going to change their sitting rooms, but they will get wider and bigger pictures. The old 4×3 proportions of the cathode ray tube were designed to match the cinema screen of the pre-television era. But in response to competition, film went wider—to the extremes of CinemaScope's 7.05×3 proportions before settling down to between 5×3 and 5.5×3 (not far from the 4.85×3 "golden mean" favoured by artists). The new metre-wide flat-panel displays are being developed with heights of 60cm to give cinema-like proportions.

Another visual effect which television engineers are cribbing from film is image size. The best seats in a cinema are at 3-3.5 times the screen height from the front (see chart). Viewers at home tend to sit around 10-12 times the screen height from the television set. Given a screen 60cm high, and keeping their seats in the same position, they would be sitting at six to eight times the screen height—close enough in proportional terms to start picking up some of the "towering" effects produced by cinema's larger images.

Will such a television screen need more than 625 lines? No,

say Europe's television planners. HDTV, they argue, is fine for making high-quality videos for big cinema-sized screens. But its 1,125 line resolution is overkill for broadcasting to the home. Displaying even a 35mm film in an "electronic cinema" would need only 800 lines or so. Besides, they say, there are some technological tricks that allow C-MAC to offer the closest thing to HDTV—and still be viewed on existing television sets.

So-called "enhanced C-MAC" uses digital tricks and microchips borrowed from the computer industry to get a sharper and bigger picture. To provide the wider 5×3 picture, engineers have borrowed six of C-MAC's eight sound and data channels. Wide-picture viewers would still be able to get stereo sound, but everybody would have to give up optional foreign language commentaries.

On each television line, the sound signals would be sent not as the usual analog waves, but as a morse-like stream of "digital packets" (akin to a packet-switched data network) transmitting 3m bits of computer data a second. The colour signals would be transmitted separately, one after another, instead of simultaneously but separated slightly in frequency.

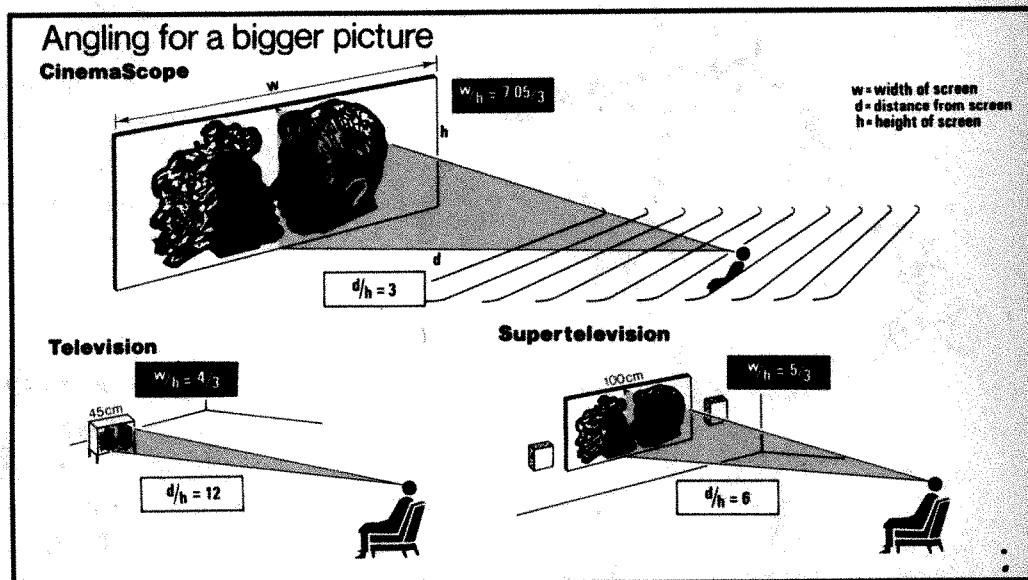
All colour television systems (NTSC, PAL or SECAM as well as MAC) use three separate signals to transmit the full range and brightness of the colours. A mixture of red, blue and green (in the proportions 30%, 11% and 59%) is transmitted as the "luminance" signal. This provides the compatibility for black-and-white sets and carries the information used by the eye's monochrome receptors ("rods"). The two additional

signals needed to supply the colour are sent as the blue component minus the luminance, and the red minus the luminance. Both trigger the eye's colour sensors ("cones") which have lower resolving power.

The trick adopted in the so-called C-MAC/Packets approach is to give the resolution-supplying luminance signal as much room as possible to do its job, while squeezing the colour components slightly—and, by separating them in time, ensuring they do not get in each other's way.

As an optional extra, a "frame store" can be used to dispense with the conventional interlacing process and all its problems. To reduce flickering, alternate lines of the picture have been sent since the beginning of television in the first cycle, followed by the alternate set in the next cycle, and so on. In Europe, that means interlacing 312.5 lines 50 times a second; in America and Japan, 262.5 lines 60 times a second. So the net result is only 25 full frames a second in Europe and 30 frames in America and Japan.

However, future television sets could display their full complement of lines (525 or 625) every cycle if they had a frame store to hold, juggle and derive their video signals—and would do so without flicker or any of the side-effects of interlacing. Used in conjunction with enhanced C-MAC, this would be equivalent to 50 full frames being painted on the screen every second. Enough, say its proponents, to give C-MAC more than sufficient picture sharpness to cope with the most demanding of transmissions—while allowing viewers to use their existing sets by buying only a small add-on box.



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Preliminary Results 1986

Turnover (including associates)	£1,473.9 million	up 15%*
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Earnings per share	34.2p	up 24%*
Dividend	16p	up 14%*

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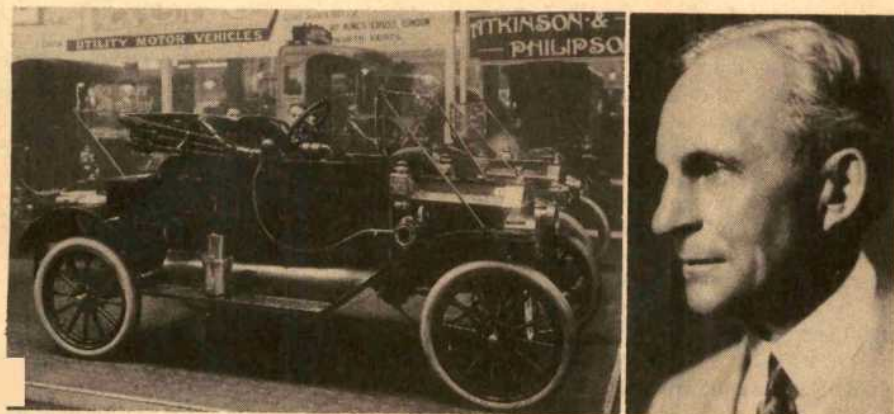
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BET

SERVICES ON THE UP AND UP



BOOKS AND ARTS



Any chairman, as long as he's a Ford

FORD. By Robert Lacey. Heinemann. 778 pages. £15. Available in America from Little, Brown. \$24.95.

On the surface, Detroit is a dull, one-industry, Midwestern town. But behind the images of corporate clonedom lie emotions and politicking fit to grace any soap opera. Mr Robert Lacey, the author of books about the British and Saudi royal houses ("Majesty" and "The Kingdom"), spent two years in Detroit, a town which treats the Ford family like a local monarchy. He has succeeded in capturing the spirit of the pioneer town that grew into the home of the world's largest manufacturing industry.

The book's first half covers the first Henry Ford, his building of the Model T and his introduction of the moving assembly line in mass production. Henry Ford was a mechanical genius who shared the populist instincts of middle America. He had a lifelong hatred of Wall Street financiers, called stockholders "parasites", and was suspicious of any attempt to use his company's success to turn a fast buck for anybody except himself.

Henry's gruff, blunt, agrarian manner appealed to some surprising people. The radical journalist John Reed—whose "Ten Days that Shook the World" painted a sympathetic portrait of the Bolshevik revolution—wrote, only half critically, of Henry's "mind of appalling simplicity". Yet this was the same mind which first worked out that mass production could

cut the price of the Model T from \$825 at its launch to only \$345 by 1916.

Low-cost mass production opened up new markets and new opportunities to make money. But this obvious lesson was not obvious to Ford's competitors. In 1914, when Henry Ford suddenly increased his workers' pay to the then massive figure of \$5 a day (part of which came in the form of a profit-sharing bonus), he was vilified by America's industrial and financial establishment for defying the natural laws of supply and demand.

The advocates of social Darwinism failed to understand his scope and his purpose. The labour savings created by the continuously moving assembly lines were so great that Ford could afford such wage increases with ease. In return for paying his workers more, the first Henry Ford wanted control of their private lives, albeit for the most paternalistic of reasons.

The result was Ford's "sociological department", which investigated the private morals and living conditions of Ford employees. Henry Ford was distressed that this new breed of industrial workers, the vanguard of today's consumer society, faced so many temptations in their boom town. Mr Lacey says that Detroit had more than 500 brothels and at least 1,000

unlicensed bars in the 1910s.

Although he does justice to the way in which Henry Ford happened upon mass production through a series of ad-hoc initiatives, Mr Lacey's book is at bottom an account of the drama of the Ford dynasty and of the conflicts within this strong-willed yet emotionally suppressed clan. Like many hugely wealthy families, the Fords have had their share of heartache and tragedy, much of it played out in the corporate arena.

Both the first Henry Ford and his grandson, Henry Ford II, held on to power too long, becoming progressively more cantankerous. As they declined, the company suffered. Sandwiched between was the unfortunate Edsel (Henry's son, after whom the equally ill-fated car was named).

Edsel Ford seems to have lived a life of perpetual humiliation because he was incapable of standing up to his tyrannical father. Like many bullies, his father wanted Edsel "to get mad". But the son, who was president of the company, only retreated further into his shell. The result was a rift in the family after Edsel's early death from cancer. Henry Ford II blamed his grandfather for what had happened to his father, and this fired him into winning control of the company from the cronies who held sway over Henry Ford in his twilight years.

Henry Ford II shared his grandfather's inflated ego and obstinate determination which, in its nastier moments, turned him into the same bullying monster. A man of no particular talent himself, he had the wisdom to recruit the talented managers who secured Ford's recovery after the second world war. Mr Lacey shows that the most important of these was not any of the much hyped "Whiz Kids", of whom Mr Robert McNamara was the most talented, but Ernest Breech, who was lured from a top executive post at General Motors.

An accountant by training, Mr Breech brought the management skills and experience that the Ford company needed. Henry Ford II's dream was to turn his family company into a "managed" machine on the model of his admired rival, General Motors. Ironically, the force and whims of his own personality prevented this from happening until he stepped down in 1979. It was not until February 1985, when Mr Philip Caldwell retired (he had previously usurped Lee Iacocca's

BOOKS AND ARTS

place as the heir-apparent), that Ford saw its first transition of power free from controversial sackings or feuding—a sign that Ford had at last become a mature corporation on the GM model.

Before that had come the celebrated feud between Henry Ford II and Mr Iacocca. Mr Lacey's book goes some way to redressing the balance after Mr Iacocca's own bestselling, and self-serving, account. The conclusion from the book is that even a company the size of Ford (its revenues were \$53 billion last year) was too small for men with such swollen egos. For that, at least, Henry Ford II should be thankful to Mr Lacey.

Social Democrats

Down, not out

THE FUTURE OF SOCIAL DEMOCRACY. Edited by William E. Paterson and Alastair H. Thomas. *Oxford University Press*. £9.95. FREEDOM AND EQUALITY. By Keith Dixon. *Routledge & Kegan Paul*. £12.95.

Scarcely a decade ago, parliamentary socialists seemed to be in command throughout Western Europe. That family of parties which confusingly call themselves Labour, Social Democratic or Socialists were either in power, sharing power, or challenging hard for power. Their conservative opponents appeared to share many of their basic assumptions, including a decisive government say in the running of the economy and a cradle-to-grave welfare state.

Today, much of this has been thrown into doubt. Outside Scandinavia, the social democrats in Europe have had a depressing time in the 1980s. In Belgium and Holland, they missed recent opportunities to unseat conservative governments. In West Germany and Britain,

their chances of returning to office at the next general elections are no better than even. France's Socialists seem to be facing several years of opposition. Only in Spain and Greece have Socialists won second terms—partly because middle-class voters liked their conservative economic management.

To account for this turn of fortune, European socialists at first blamed bad luck: in many places they were in charge when the stagflationary oil-shocks of the 1970s struck. Now, as the essays in "The Future of Social Democracy" show, a more self-critical mood prevails.

Internal trouble for social democracy had been building up for a long while. In the 1970s, the tension between Keynesian demand-management backed by incomes policy and free collective bargaining mounted, particularly in Britain. Many people came to realise that the welfare state often was not providing modern and cost-effective services to those it was designed to help most.

All the while, the old alliance between social reformers and the unionised working class was breaking up, as manufacturing industries declined in importance. Socialist parties had to rely more and more on white-collar, often public-sector, workers for the core of their support.

A merit of this collection of essays is to pay close attention to local differences. The bulk of the book is a set of separate studies of the parliamentary socialist parties in Britain, West Germany, Austria, Scandinavia and France. These bring out well the robust confidence of social democracy in Scandinavia and the special sharpness of the conflict between unions and government in Britain.

There are thematic essays on the varying degrees of damage done to social-democratic parties in Western Europe by their failure to cope with the sharp rise in unemployment at the end of the decade, on their various attitudes to European co-operation and on the degrees of openness of the leadership in the different parties.

This makes for fine anatomy. Yet the editors might have taken their own title more seriously and risked bolder thoughts about social democracy's future. For this, they would have had to hoist themselves above the detail of party structure and election manoeuvring and look at the body of ideas that most European social democrats share.

Their idea of economic justice has come under fire recently from neo-conservative philosophers. Two Americans, John Rawls and Robert Nozick, offer a particular challenge. For Mr Rawls, freedom is more important a social value than equality. For Mr Nozick, it is up to social reformers offering a "new deal" to show why their proposed redistribution of

wealth and social position is better than the hand dealt by history. After a pause, Social Democratic thinkers such as Keith Dixon are now beginning to reply. In his short book, "Freedom and Equality", he sketches a defence of the view that egalitarianism and civil liberties are more companionable than conservatives often claim.

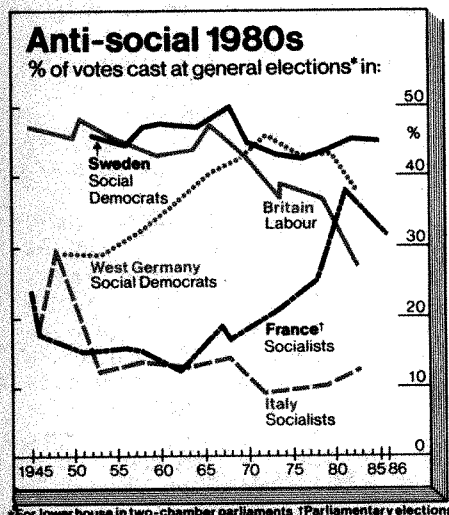
Tanzania

Squandered riches

THE CHALLENGE FOR TANZANIA'S ECONOMY. By C. George Kahama, L. Maliyamkono and Stuart Wells. *James Currey*. 384 pages. £25.

Two of this book's authors are prominent Tanzanians. Mr Kahama is the country's ambassador to China; Mr Maliyamkono an economics professor at its leading university. This hampers it. Although Dr Julius Nyerere retired as president in 1985, Tanzania remains the one-party state he established in 1965, and it is still stumbling along the road to socialism that he mapped out in the so-called Arusha declaration of 1967. An unwillingness to ask hard questions leads the authors to say some odd things. For example: "although severe problems have occurred . . . it does not indicate that Tanzania has chosen the wrong path to development." Of course not; it is merely the implementation that has been at fault.

That said, the implementation has to come in for hard criticism. The authors describe Tanzanian agriculture as "dismal" and they admit that the policy of "villageisation" (in which 80% of the population was rounded up in the late



Saith Seth

Vikram's Seth's *The Golden Gate* (Faber & Faber, £8.95; in America, Random House, \$17.95), is a novel in sonnet form, inspired by Pushkin's "Eugene Onegin". We were inspired in turn.

If you are bright and under forty,
Watch your waist, and hate the Bomb;
If you appreciate Vivaldi,
This novel has your number on.
Vikram Seth's a Stanford student
Of artful phrase—but one impudent
Enough to use the sonnet's glory
To celebrate a yuppie's story.
Audacity makes a good impression:
The satire stings, the rhymes can stun;
So read "The Golden Gate" for fun.
But don't expect the plot's progression
To stir your heart. For Seth has found
That pasta-eaters aren't profound.

A great survivor

FROM THREE WORLDS. By William Clark. Sidgwick & Jackson. 286 pages. £13.95.

William Clark had not finished these memoirs by the time he died last year. But he had done enough, helped by a lifelong habit of squirrelling away notes and memorabilia, to tell a fine story. His friends will feel that it does him justice, and others will find most of it fascinating. If just the friends buy it, one copy each, it will be a bestseller.

For Clark had a knack of making friends, particularly in high places. His



career took him through the British diplomatic service to journalism, chief press man in Downing Street, the Overseas Development Institute and the World Bank. He had a reputation as a social gadfly, and did little to dispel it; but there was much more to him than that. He resigned honourably from Downing Street over Suez; founded the ODI; and at the World Bank he retained the respect of Robert McNamara, not a man who warmed to gadflies.

One of the reasons for Clark's effectiveness was his fluency. Though much of this book was written against the ultimate deadline of cancer, the prose is clear and elegant. In conversation, and in speeches to smallish groups, Clark was even more at home. The *bon mot*, the literary allusion, the name-dropping anecdote—he used them all, to the delight of princes and presidents.

Serious students of history will turn to the chapter on Clark's stint as press adviser to Eden in 1955-56. They will find little of the personalised sensationalism that Clark could have used to describe the nonsense of Suez. His account, in the form of a diary, seems all the more authentic for being full of muddle. Only occasionally does the passion show through: "I long to be free as a journalist to drive this government from power, and keep the cowards and crooks out of power for all time." Few people in Britain emerged from the Suez crisis with much credit. William Clark was one of those few. Though his memoirs come after his death, they show why he was the great survivor.

1960s and resettled in new villages) was forced.

Agriculture employs three-quarters of Tanzania's population and it gets too little space in this book. The failure of farming is the dark side of the Arusha declaration. The bright sides are education and health. Since independence in 1961, life expectancy at birth has increased from 43 to 52 years; infant mortality has declined from 152 to 103 per thousand; literacy now runs at 85%. Most of these figures are above the average for the developing world.

During the 1960s and 1970s, Tanzania was regarded as a model for many developing countries. In the 1980s, Tanzanians are looking at other countries to see where Tanzania went wrong. The book analyses eight countries, ranging from Japan to Tanzania's more successful (though less equitable) neighbour, Kenya. The comparisons help explain what is special about the Tanzanian model. The book ends with a long list of prescriptions. None urges any retraction from the

principles of Arusha; the sensitive issue of devaluation is not addressed. But the authors do support some of the reforms which African leaders confirmed they were moving towards at the recent United Nations session on Africa: market prices for farmers and curtailment of excessive government investment in industry.

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Dieskau and Mstislav Rostropovich: he encountered all of them as a producer of classical music recordings for the past 26 years at EMI. Though he modestly gives few autobiographical details in this book, he is as interesting as they.

It was Mr Grubb's job to tell these great ones to "play it again"—and again. Repeats (known as "edits") are needed to achieve the ideal performance as judged by the artist and Mr Grubb. So a chord, a bar, or even a single note would be repeated, cut from the recording tape, and spliced into an apparently continuous performance. Most LPs contain about 50 or 60 such "edits". When Klemperer discovered that his recorded performances were a mosaic, he exclaimed "*ein Schwindel!*" and he was partly right.

Mr Grubb has none of the high-altar quality of the musical establishment. He is not a hearty Teuton, ascetic Slav or upper-crust Englishman. He hails from Tamil Nadu in south India. It was the eccentric Walter Legge, the musical tsar of EMI, who in 1960 gave this unlikely-seeming figure his chance, recognising in him a unique ability—instant and total recall, combined with an encyclopedic knowledge of classical music. Thus he made his way into the heart of the international music-recording world.

Mr Grubb's daunting competence ensured that musicians (even the imperious Klemperer) not only accepted his guidance but became his friends. Hence the bubbling flow of reminiscence about the splendours and miseries of working with the great to record great music. Mostly splendour, much fun, and surprisingly few miseries. For the era of the temperamental maestro has almost passed, perhaps charmed away by the likes of Mr Grubb, perhaps influenced by simple economics—at £25 a minute for studio time, tantrum-throwing is an unaffordable luxury. In the words of Schubert's "*An die Musik*": "this art carried me away into a better world."



Success sotto voce

ARTS



Serban imprisons the Garden's reputation

The overgrown Garden; the robust Coliseum

The tenure of Sir Colin Davis at London's Royal Opera House has wended its way to a disappointing end. What did London's most expensive opera house achieve during his reign? How does it compare with the less up-market English National Opera?

Ten years is long enough in any job. Sir Colin Davis stayed for 15 as musical director of Covent Garden and inspiration flagged before the end. Yet the Colin Davis era was not quite the chapter of disappointments it has been painted. At least in his early years, he reminded audiences that fine singing and great music-making are what opera is about. For this, more than his own sometimes pedestrian performances, he will be remembered with gratitude.

Sir Colin had the courage to invite comparison with the best young conductors the music world had then to offer. Carlos Kleiber, Claudio Abbado, Riccardo Muti, Giuseppe Sinopoli: all were heard in the pit. So, too, was Carlo Maria Giulini, who conducted Verdi's "*Falstaff*". If the result was surprisingly lacklustre (less sparkling than Sir Colin's own later encounter with the same production), at least the long-absent Italian maestro was back in the opera house.

Tip-top international singers were heard again. Plácido Domingo came. So

did José Carreras and Agnes Baltsa, Renato Bruson and Grace Bumbry. Out, by and large, went the Marmaduke Thelthwaites and the Ermintrude Highbottoms that had been the vocal legacy of Sir Georg Solti's *ancien régime*.

To have restored musical excellence to one of the world's leading opera houses was no small achievement. Nor was the "democratisation" of opera that came with the inauguration, under the sponsorship of Midland Bank, of Covent Garden "proms"—those relaxed evenings when the pricey stalls seats are whipped out and impecunious music-lovers get a cut-price opportunity to hear good music.

Yet the English National Opera (ENO) shows that these were successes only by Covent Garden's standards. The Garden slumps it during prom performances, but the ENO marriages, night after night, to attract an audience which turns up at the Coliseum because it wants to hear the music, rather than because going to the opera has usurped the place of going to church and sitting in the front pew. And

the ENO, which performs operas in English, has managed to maintain musical standards without importing starry casts. Its singers are a loyal company, not a miscellaneous collection of prima donnas. Its own stars—Josephine Barstow, Rosalind Plowright and Valerie Masterson—have more often been exported to opera houses catering for the international jet set.

Many high points of Covent Garden's past 15 years have been evenings with which Sir Colin was not directly involved. He is often accused of neglecting Italian opera but others have made up for it. Puccini's "La Fanciulla del West", under Zubin Mehta, and Verdi's "Luisa Miller", under Lorin Maazel, took their place as works scarcely less rewarding than more familiar operas. In the German repertoire, Richard Strauss's "Elektra"

directed by Sir Georg Solti and resplendently cast (with Birgit Nilsson, Helga Dernesch and Regina Resnik) remains one of the three or four finest performances of the Davis era.

So why is his departure marked by almost universal agreement that the early promise has been only intermittently fulfilled? Partly because Sir Colin himself

proved a plodding conductor. Yes, he gave Berlioz a good outing; yes, he consolidated his reputation as a stylish Mozartian; yes, he did his bit for modern music (with loyal advocacy of Sir Michael Tippett). All these were worthy achievements. And that, perhaps, is what was wrong. The spark of brilliance—felt so often down the road at the Coliseum and latterly at Glyndebourne (see box)—was too often missing.

One reason is that Covent Garden is eddying in the international jet stream. Singers and conductors who make lots of records are *de rigueur*. At Covent Garden, it makes sense to talk of "the Davis era". At the ENO, the era that has just ended belonged to the Earl of Harewood, the ENO's managing director who retired at the end of 1985. Not because the place is bureaucratic but because nobody can decide who is more important—the music director, Mark Elder, or the director of productions, David Pountney. In magical shows like Dvorak's "Rusalka" (literally magical: the opera, based on Hans Andersen, is suspended between the nursery and the fairy tale), producer and conductor are working as one. With the cartoonist Gerald Scarfe, Mr Elder served up an

"Orpheus in the Underworld" which reclaimed Offenbach's operetta as political satire. ENO's choice of operas has been adventurous: not just modern operas (including Harrison Birtwistle's recent "The Mask of Orpheus") but most of Janacek's operas and some little-known Handel and Busoni.

In contrast, over at the Garden, Sir Colin grew increasingly committed to outlandish new productions. It is sad, but not unfitting, that the last new staging under his aegis was the roundly condemned travesty of "Fidelio" perpetrated by Andrei Serban. Production standards at Covent Garden over the past few years have declined alarmingly. A strong, if tattered, "Aida" was yanked off in favour of a hideous new version by Jean-Pierre Ponnelle; a vulgarised "Rosenkavalier" from John Schlesinger replaced that by Luchino Visconti.

By having its top producer on the staff, the ENO has raised production standards to enviable heights. Covent Garden, in Sir Colin's time, developed a knack of matching the wrong opera with the wrong producer. Sad that such good intentions came to this. On, now, to the Bernard Haitink era.

Porgy's got plenty o' nuttin'

Glyndebourne, Britain's uppest of upper-crust opera houses, set in the Sussex countryside, has been winning critical plaudits this summer for breaking with tradition and mounting works that are too little known. Mozart may go down a treat there but Glyndebourne has this year served up less familiar fare—mid-period Verdi ("Simon Boccanegra") and, more adventurously, George Gershwin's "Porgy and Bess". "Porgy", has been hosannated to the rafters. A success like this (a controversial, would-be populist work, receiving its first British production in the heartland of conservatism) may help dispel the charges of elitism sometimes levelled at Glyndebourne.

But what kind of a work is "Porgy"? And how good is it? In a production as accomplished as Trevor Nunn's, it is easy to go starry-eyed. Despite boasting as many memorable tunes as "Carmen", "Porgy" has never entered the repertoire of any leading opera house. This is not because of historical oversight, nor racial prejudice.

True, it can be hard to assemble an all-black cast. But in New York, where there is no shortage of home-grown black talent, the first Metropolitan Opera performance was given only last year—50 years after the opera's first

performance. True, it is full of boring recitative. Postwar productions, of which there have been comparatively few, have tried replacing this with dialogue. "Carmen", "Fidelio" and "Die Zauberflöte" all have spoken dialogue, after all, yet in "Porgy" the effect is to make it seem more like "Carousel".

Otto Preminger's film version, with Sidney Poitier, Dorothy Dandridge and Sammy Davis Jr, was a leaden entertainment that sank at the box office in 1959. Yet, barely five years before, the same

director and the same actress had succeeded with a much more unlikely vehicle—Oscar Hammerstein's reworking of Bizet into "Carmen Jones". Are there flaws in "Porgy" that deny it wide popularity, however good the songs?

There are. Written in 1935, DuBose Heyward's libretto embodies the racial stereotypes that make some Hollywood movies with black servants so hard to watch. "Porgy and Bess" is peopled by lovable, simple "darkies" who call the white man "boss" and who need paternalistic guidance to save them from the snares of flim-flam men. The libretto of "Porgy and Bess" is marooned in the condescension of its time.

"Porgy" still sounds like a musical with pretensions. The toe-tapping hit songs—"I got plenty o' nuttin'" and "It ain't necessarily so"—have the rhythms of tin-pan alley rather than the opera house. They may be none the worse for that, but they sit awkwardly alongside the choruses and fugues. The grand emotional numbers—"Bess, you is my woman now" and "I loves you, Porgy"—come close to being cloying. Gershwin's orchestration sounds undernourished; it is a score that only intermittently matches the demands of the drama. Sometimes fine productions serve not so much to bring out hidden qualities as to disguise shortcomings. The performance at Glyndebourne this year may be one of these.



Summertime at Glyndebourne

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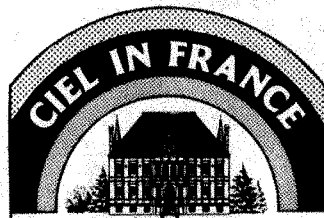
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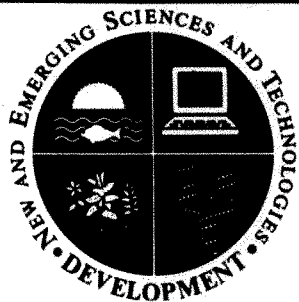
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ECONOMIC AND FINANCIAL INDICATORS 1

OUTPUT, DEMAND AND JOBS America's real GNP rose by only 0.3% (1.1% annual rate) in the second quarter of this year, down from 0.9% growth in the first quarter; the 12-month growth slowed to 2.7%. In the year to May, industrial production fell 1.5% in France and 4.8% in Holland, but Swedish industry raised its output by 2.8%. Britain revised its method of calculating the unemployment rate; the official rate was reduced to 11.7% in June, but this is still higher than a year ago.

% change at annual rate

	industrial production		GNP/GDP		retail sales		unemployment % rate	
	3 mths†	1 year	3 mths†	1 year	3 mths†	1 year	latest	year ago
Australia	+ 2.4	+ 3.7 (2)	- 0.5	+ 4.7 (3)	+ 4.3	+ 5.0(12)	7.6 (6)	8.7
Belgium	+ 4.0	+ 3.2 (2)	na	na	- 2.2	+ 0.9 (1)†	11.7 (5)*	12.8
Canada	- 0.4	+ 5.2 (4)	+ 2.3	+ 3.6 (3)**	+ 2.9	+ 5.1 (4)	9.5 (6)	10.4
France	+ 5.1	- 1.5 (5)	- 0.4	+ 2.4 (3)	+ 0.6	+ 0.1 (3)	10.0 (5)*	9.8
W. Germany	+ 3.1	+ 2.3 (5)	- 6.5	+ 1.6 (3)	+ 9.9	+ 4.2 (5)	9.0 (6)	9.3
Holland	+14.8	- 4.8 (5)	+ 0.8	+ 2.0(12)	- 7.8	+ 1.7 (4)†	14.6 (6)	15.5
Italy	+21.1	+ 7.7 (4)	- 0.4	+ 2.2 (3)	+15.6	+ 2.2(12)†	13.9 (5)*	12.6
Japan	+ 0.5	- 1.8 (5)	- 2.0	+ 3.2 (3)	+28.0	+ 5.2 (3)	2.7 (5)	2.5
Spain	-15.7	- 2.4 (3)	na	na	+28.7	nil (3)†	20.4 (6)	20.1
Ireland	+ 4.8	+ 2.8 (5)	+ 6.2	+ 3.2 (3)	+16.8	+ 2.2 (3)†	2.4 (6)*	2.5
UK	nil	+ 1.0 (3)	- 4.4	+ 2.2 (3)	- 8.8	- 5.9 (4)	0.8 (6)*	0.9
USA	+ 3.1	- 0.5 (5)	+ 2.9	+ 2.5 (3)	+ 6.4	+ 5.3 (6)	11.7 (6)**	11.3
USA	- 2.8	- 0.2 (6)	+ 1.1	+ 2.7 (6)	+ 8.8	+ 4.1 (5)	7.1 (6)	7.3

†Value index deflated by CPI. **new series.

PRICES AND WAGES America's 12-month rate of consumer-price inflation rose from 1.6% in May to 1.7% in June—the first increase this year. In the same month, France's inflation rate remained at 2.3%, Canada's fell to 3.7% and Spain's rose to 8.9%. The earnings of British workers increased by 7.5% in the year to May—a real pay rise of almost 5%. Australia's wholesale prices rose 7.9% in the year to March.

% change at annual rate

	consumer prices*		wholesale prices*		wages/earnings†	
	3 mths†	1 year	3 mths†	1 year	3 mths†	1 year
Australia	+ 2.3	+ 9.2 (2)	+ 8.5	+ 7.9 (3)	+ 9.9	+ 7.1 (2)
Belgium	+ 0.6	+ 1.2 (6)	-10.8	- 7.1 (5)	+16.0	+ 3.0(12)
Canada	+ 3.2	+ 3.7 (6)	- 3.1	+ 0.3 (5)	+ 0.9	+ 3.0 (4)
France	+ 2.9	+ 2.3 (6)	- 2.1	- 0.3 (3)	+ 3.9	+ 4.8 (4)
W. Germany	- 0.9	- 0.2 (6)	- 5.7	- 2.8 (6)	+ 6.1	+ 3.3 (5)
Holland	+ 1.3	+ 0.2 (6)	- 7.3	- 5.5 (3)	+ 1.3	+ 1.4 (5)
Italy	+ 4.7	+ 6.3 (6)	- 7.7	- 1.8 (5)	+ 3.0	+ 7.2 (3)
Japan	- 1.8	+ 0.5 (5)	-15.7	-10.1 (6)	+ 0.2	+ 2.4 (5)
Spain	+ 4.4	+ 8.9 (6)	- 1.3	+ 1.8 (4)	+13.4	+10.0 (4)
Sweden	+ 2.1	+ 3.8 (6)	+ 1.5	+ 1.4 (5)	+ 2.7	+ 1.9 (4)
Switzerland	- 0.7	+ 0.8 (6)	- 5.9	- 4.2 (6)	+18.9	+ 3.8 (3)
UK	+ 5.2	+ 2.5 (6)	+ 6.6	+ 4.5 (5)	+10.1	+ 7.5 (5)
USA	- 1.0	+ 1.7 (6)	- 5.2	- 1.6 (6)	+ 1.4	+ 2.5 (6)

†ry wage rates in manufacturing except Australia, weekly earnings; Japan, and Switzerland, monthly earnings; Belgium, da, Sweden and USA, hourly earnings; UK, monthly earnings for all employees.

THE ECONOMIST COMMODITY PRICE INDEX Brazil's drought in 1985 has cut its coffee output by more than half this season, down to about 14m bags. This, however, has merely reduced stocks to more normal levels. World stocks are expected to fall to about 35m bags in the 1986-87 season, which will still be nearly 40% of annual world consumption. The time when there is a peak risk of frost in Brazil has passed, and coffee prices slipped to 137 cents a lb (40% below the January peak) two weeks ago. Now, however, the market is starting to worry about lack of rain, and prices are back above 150 cents a lb.

1980=100

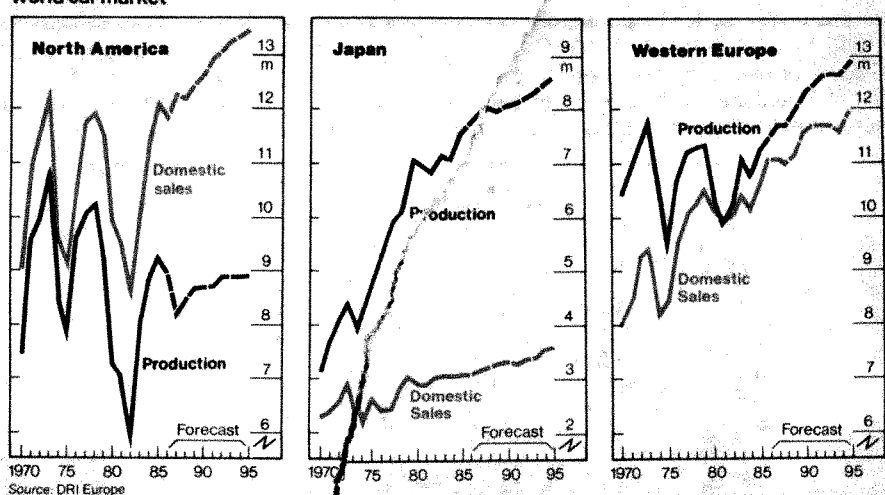
	July 15	July 22 (provisional)	% change on one month	% change on one year
Dollar index				
All items	74.6	75.3	- 2.3	+ 2.5
Food	83.4	84.7	- 0.2	+12.2
Industrial				
All	65.9	66.1	- 4.0	- 7.2
Nfa*	71.4	70.8	- 5.4	- 7.3
Metals	61.5	62.3	- 3.0	- 7.0
Sterling index				
All items	115.9	117.4	- 0.6	- 3.0
Food	129.6	132.1	+ 1.5	+ 6.2
Industrial				
All	102.4	103.1	- 2.3	-12.1
Nfa*	111.0	110.3	- 3.7	-12.3
Metals	95.6	97.1	- 1.3	-12.0
SDR index				
All items	81.9	81.8	- 4.7	-11.8
Food	91.5	92.0	- 2.7	- 3.5
Industrials				
All	72.3	71.9	- 6.4	-20.1
Nfa*	78.4	76.9	- 7.8	-20.3
Metals	67.5	67.7	- 5.4	-20.0
Gold				
\$ per oz	346.75	353.75	+ 3.1	+ 9.9
Crude oil (spot) North Sea Brent				
\$ per barrel	9.55	9.30	-17.7	-65.6

*Non-food agricultural.

FOCUS: WORLD CAR INDUSTRY

The gap between Japan's car production and its domestic sales—ie, its exports—has widened steadily during the past 15 years. Last year, Japan exported 4.4m cars—almost 60% of total output. More than half of these exports went to North America. Imports now grab 28% of total sales in North America—nearly double the share in 1970—and Japan takes 70% of these. The weak dollar will slow America's import growth this year, so more Japanese car plants are likely to start blooming in America soon. European carmakers—also net exporters—have done well in America during the past few years; with a weaker dollar, times will be harder.

World car market



Footnotes applicable to all tables. All figures seasonally adjusted except where otherwise stated. *Not seas. adj. †Average of latest 3 months compared with average of previous 3 months, at annual rate. n.a. Not available. Small figures in brackets denote month of indicator.

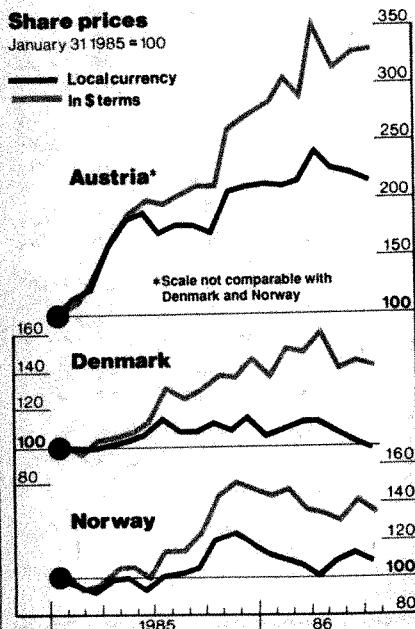
ECONOMIC AND FINANCIAL INDICATORS 2

FOCUS: SMALL BOURSES Austria is the smallest of the stockmarkets monitored by Morgan Stanley Capital International: its market capitalisation of \$4.6 billion is only 0.2% of Wall Street's. But it was 1985's top performer—up 172% in dollar terms, compared with a rise of 37% in the World Index. Austria's introduction of new tax breaks on share purchases lifted prices further in the first four months of 1986, but the market has since slipped back. Denmark (market capitalisation of \$14.4 billion) and Norway (\$8.7 billion) both outperformed the world index in 1985, but this year they are the only two markets to have fallen in dollar terms.

Share prices

January 31 1985 = 100

— Local currency
— in \$ terms



Source: Morgan Stanley Capital International

WORLD BOURSES Wall Street rallied despite news of the sharp slowdown in GNP growth in the second quarter. Investors in Tokyo and Frankfurt fretted about the impact of the falling dollar on their exporters' profits; Frankfurt fell 4.5% to a 1986 low.

Stock price indices

*July 21	July 22	1986		% Change on		31/12/85	
		high	low	one week	one year	record high	in local currency
Australia	1136.7	1247.0	1010.8	+ 1.3	+ 21.8	- 8.8	+ 13.2
Belgium	3642.1	3746.9	2766.9	- 1.5	+ 57.4	- 2.8	+ 23.7
Canada	2971.1	3129.1	2754.0	- 0.2	+ 7.0	- 5.0	+ 2.4
France	363.7	411.3	267.8	- 0.3	+ 66.9	-11.6	+ 36.8
W. Germany	1762.4	2278.8	1762.4	- 4.5	+ 25.4	-22.7	+ 9.7
Holland	282.0	294.4	240.4	- 2.9	+ 29.3	- 4.2	+ 10.3
Hongkong	1791.5	1865.7	1559.9	+ 1.6	+ 7.0	- 4.0	+ 2.2
Italy	682.9	908.2	454.7	+ 4.0	+ 90.2	-24.8	+ 49.4
Japan	17639.3	17882.8	12891.5	- 1.4	+ 38.2	- 1.4	+ 34.8
Singapore	728.8	776.9	563.3	- 0.5	- 6.4	-32.0	+ 17.5
South Africa	1214.9	1219.2	1069.3	+ 1.7	+ 20.2	- 0.4	+ 13.8
Spain	172.2	194.8	100.8	+ 0.3	+113.5	-11.6	+ 72.2
Sweden	2443.3*	2510.6	1729.6	- 1.7	+ 80.7	- 2.7	+ 40.6
Switzerland	503.4	625.5	503.4	- 6.9	+ 9.0	-19.5	- 14.4
UK	1274.7	1425.9	1094.3	- 2.1	+ 38.4	-10.6	+ 12.7
USA	1795.1	1909.0	1502.3	+ 1.5	+ 32.8	- 6.0	+ 16.1

MONEY AND INTEREST RATES The 12-month growth in both measures of West Germany's money supply quickened in June; M1 rose 11.5% and M3 by 7.9%. Britain's broad money measure, sterling M3, rose 18.3% in the same period.

	Money supply		Interest rates % p.a. (Tuesday, except bonds which are previous Friday)							
	% rise on year ago		Money market		Commercial banks		Bond yields		Eurocurrency	
	Narrow	Broad	Overnight	3 months	Prime lending	Deposits 3 months	Gov't long-term	Corporate	Deposits 3 months	Bonds
	(M1)									
Australia	- 0.5	+15.0 (5)	13.75	14.60	17.00	14.60	13.68	14.68	14.31	12.98
Belgium	+ 3.8	+ 7.4 (12)	7.00	7.18	10.50	7.18	8.25	8.38	7.13	na
Canada	+ 2.9	+ 4.8 (6)	8.50	8.20	9.75	8.20	9.28	10.03	8.20	9.93
France	+ 6.5	+ 4.6 (4)	7.50	7.25	9.60	7.25	7.86	9.20	7.19	8.44
W. Germany	+11.5	+ 7.9 (6)	4.55	4.65	7.00	4.23	6.25	5.95	4.56	5.85
Holland	+ 5.9	+ 4.5 (4)	6.13	5.75	8.00	5.75	6.21	6.73	5.69	6.47
Italy	+ 9.8	+ 9.2 (4)	12.00	12.00	13.50	11.50	11.17	9.81	11.38	na
Japan	+ 5.4	+ 8.6 (5)	4.44	4.60	4.13	2.13	5.11	6.10	4.72	5.42
Spain	+15.1	+12.2 (5)	12.21	12.33	14.50	6.50	12.39	13.05	12.38	na
Sweden	na	+ 7.1 (5)	8.00	10.08	12.75	9.48	9.66	10.83	9.63	na
Switzerland	+ 5.8	+ 6.1 (4)	10.38	4.94	7.25	4.25	4.40	4.86	5.55	4.80
UK	+18.6	+18.3 (6)	7.00	10.03	11.00	9.94	9.59	10.43	10.00	9.85
USA	+12.8	+ 7.4 (6)	6.31	6.13	8.00	6.10	7.18	8.97	6.50	7.73

Other key rates in London 3-mth Treasury Bills 9.6%, 7-day Interbank 9.6%, clearing banks' 7-day notice 4.4%
Eurodollar rates (Libor): 3 mths 6.6%, 6 mths 6.6%.

*M2 except Australia, Canada, Spain, Switzerland, USA, W. Germany, M3, Japan M2 + CDs, UK EM3. Definitions of interest rates quoted available on request. Sources: Bank of Bilbao, Chase Manhattan, Chase Econometrics, Banque de Commerce (Belgium), Nederlandse Credietbank, Credit Lyonnais, Svenska Handelsbanken, ANZ bank, Credit Suisse First Boston. These rates are indicative only and cannot be construed as offers by these banks.

TRADE, EXCHANGE RATES AND RESERVES The dollar's trade-weighted exchange rate fell 0.9% during the week—down 29% from its February 1985 peak; it touched a new low of Y154.85. Sterling's trade-weighted value fell 1.2%. France's visible trade deficit widened to \$2.8 billion in the 12 months to June, from \$1.9 billion in the year to June 1985. Australia's trade deficit increased from \$1.2 billion to \$2.3 billion during the same period.

	Trade balance**		current-account balance \$bn latest 12 mths	Trade-weighted† exchange rate		currency units per \$		currency units		foreign reserves†† \$bn	
	latest month	latest 12 months		latest	year ago	latest	year ago	per £	per SDR	per ecu	May
Australia	- 0.20 (6)	- 2.3	- 10.1 (6)	53.4	68.4	1.57	1.40	2.35	1.88	1.56	6.2
Belgium	+ 0.23 (4)	- 0.3	+ 0.1 (12)	86.6	71.0	44.0	57.3	65.6	52.5	43.8	6.1
Canada	+ 0.60 (5)	+ 9.2	- 3.2 (3)	78.0	87.1	1.38	1.35	2.06	1.65	1.38	2.6
France	- 0.18 (6)	- 2.8	+ 0.9 (12)	69.2	67.1	6.90	8.66	10.3	8.22	6.86	26.5*
W. Germany	+ 3.74 (5)	+ 34.8	+ 21.6 (5)	137.0	125.1	2.14	2.85	3.19	2.54	2.12	43.2
Holland	+ 0.58 (4)	+ 4.4	+ 5.9 (12)	127.0	115.5	2.41	3.20	3.59	2.87	2.39	10.8
Italy	- 0.58 (4)	- 10.0	- 4.1 (12)	46.8	43.9	1465	1906	2184	1748	1457	18.9
Japan	+ 8.42 (5)	+ 69.1	+ 63.2 (5)	217.1	157.8	157	238	234	186	155	32.6
Spain	- 0.08 (6)	- 5.5	+ 3.6 (5)	49.1	47.8	137	166	203	162	135	11.5
Sweden	+ 0.48 (5)	+ 3.6	- 1.0 (12)	67.3	67.3	7.06	8.34	10.5	8.41	7.01	6.6
Switzerland	- 0.15 (4)	- 3.6	+ 4.5 (12)	164.9	147.5	1.73	2.34	2.58	2.05	1.71	16.5
UK	- 1.01 (5)	- 4.6	+ 4.5 (5)	72.8	84.2	0.67	0.71	—	0.80	0.67	14.4
USA	-14.21 (5)††	-162.6	-125.2 (3)	112.3	137.4	—	—	1.49	1.20	0.9	34.2

**Canada, Australia, Japan, France and UK imports fob, exports fob. All others cif/fof. †Bank of England index 1975=100. ††excluding gold. *March. ††not seasonally adjusted.

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